

PERU

STATE MODERNIZATION AND DECENTRALIZATION PROGRAM

(PE-0217)

LOAN PROPOSAL

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BASIC SOCIOECONOMIC DATA

For basic socioeconomic data, including public debt information, please refer to the following address:

English:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

Spanish:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

ABBREVIATIONS

CND	National Decentralization Council
CONAM	National Environment Council
CONSUCODE	Supreme State Contracting and Procurement Council
CTAR	Transitional Regional Administration Council
DPB	Decentralized public body
FIDE	Intergovernmental Decentralization Fund
INEI	National Institute of Statistics and Informatics
LOPE	Organic Executive Power Law
MEF	Ministry of Economic Affairs and Finance
MIPRE	Ministerial Office of the President of the Republic
MTC	Ministry of Transport, Communications, Housing and Construction
OSIPTEL	Regulatory body for private investment in telecommunications
PAD	Annual decentralization plan
PAI	Institutional support plan
PCM	Office of the President of the Council of Ministers
SEACE	Electronic system for State procurement and contracting
SIAF	Integrated Financial Management System
SNFIL	National System of Local Institution Strengthening
SNIP	National Investment System
UCP	Program coordination unit



PERU

IDB LOANS

APPROVED AS OF SEPTEMBER 30, 2002

	<i>US\$Thousand</i>	<i>Percent</i>
TOTAL APPROVED	5,960,376	
DISBURSED	5,146,231	86.3%
UNDISBURSED BALANCE	814,145	13.7%
CANCELLATIONS	997,802	16.7%
PRINCIPAL COLLECTED	2,085,421	35.0%
APPROVED BY FUND		
ORDINARY CAPITAL	5,321,222	89.3%
FUND FOR SPECIAL OPERATIONS	418,130	7.0%
OTHER FUNDS	221,024	3.7%
OUTSTANDING DEBT BALANCE	3,060,810	
ORDINARY CAPITAL	2,961,871	96.8%
FUND FOR SPECIAL OPERATIONS	98,902	3.2%
OTHER FUNDS	36	0.0%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	526,954	8.8%
INDUSTRY, TOURISM, SCIENCE TECHNOLOGY	634,324	10.6%
ENERGY	274,606	4.6%
TRANSPORTATION AND COMMUNICATIONS	1,023,537	17.2%
EDUCATION	196,556	3.3%
HEALTH AND SANITATION	309,685	5.2%
ENVIRONMENT	0	0.0%
URBAN DEVELOPMENT	72,372	1.2%
SOCIAL INVESTMENT AND MICROENTERPRISE	642,943	10.8%
REFORM PUBLIC SECTOR MODERNIZATION	1,993,324	33.4%
EXPORT FINANCING	176,756	3.0%
PREINVESTMENT AND OTHER	109,319	1.8%

* Net of cancellations with monetary adjustments and export financing loan collecti



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Peru

Tentative Lending Program

2002

Project Number	Project Name	IDB US\$ Millions	Status
PE0211	Fiscal Reform Program	300.0	APPROVED
PE0193	Foncodes III	150.0	APPROVED
PE0219	Trade Policy Development Prog.	5.0	
PE0217	Modernization of the State and Decentralization Prog.	28.0	
PE0233	Inst. Environmental Strengthening of the Camisea Project	5.0	
Total - A : 5 Projects		488.0	
PE0220	Institutional Support of the Congress	7.0	
PE0218	Support to the Housing Sector Program	60.0	
Total - B : 2 Projects		67.0	
TOTAL 2002 : 7 Projects		555.0	

2003

Project Number	Project Name	IDB US\$ Millions	Status
PE0223	Strengthening and Modernization Tax System Administration	8.0	
*PE0216	Grana y Montero ("G&M") Partial Credit Risk Guarantee	15.0	
PE0203	Science and Technology Program	35.0	
PE0187	Urban Transport in Lima	40.0	
*PE0235	Road Network	19.0	
*PE0238	TIM Peru	60.0	
PE0239	Competitiveness Reform Program	300.0	
PE0142	Sanitation Sector Devel. Support Prog.ii	50.0	
PE0240	Democratic Consolidation of Citizen Security	14.0	
PE0236	Support to Departmental Highway Decentralization	100.0	
PE0207	National Statistics System Strengthenin	15.0	
Total - A : 11 Projects		656.0	
*PE0222	Camisea Project	75.0	
PE0200	Public Investment System	10.0	
PE0209	Global Credit Prog. III	30.0	

PE0234	Support Services to the Rural Competitiveness	32.0
PE0241	Youth Training Program	50.0

Total - B : 5 Projects	197.0
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TOTAL - 2003 : 16 Projects	853.0
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Total Private Sector 2002 - 2003	169.0
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Total Regular Program 2002 - 2003	1,239.0
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* Private Sector Project



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STATUS OF LOANS IN EXECUTION AS OF SEPTEMBER 30, 2002

(Amounts in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED	AMOUNT DISBURSED	% DISBURSED
1996 - 1997	4	298,300	256,951	86.14%
1998 - 1999	5	567,708	200,205	35.27%
2000 - 2001	5	186,800	32,292	17.29%
2002	2	450,000	200,000	44.44%
TOTAL	16	\$1,502,808	\$689,448	45.88%

* Net of Cancellations . Excluding export financing loans.

STATE MODERNIZATION AND DECENTRALIZATION PROGRAM

(PE-0217)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Peru	
Executing agency:	Office of the President of the Council of Ministers (PCM)	
Amount and source:	IDB: (OC)	US\$28 million
	Co-financing:	<u>US\$12 million</u>
	Total:	US\$40 million
Financial terms and conditions:	Amortization period:	20 years
	Disbursement period:	5 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	United States dollars drawn on the Single Currency Facility
Objectives:	<p>The aim of this project is to contribute to an effective process of government modernization and decentralization in Peru, by redefining key institutional regulations and putting new administrative structures and systems in place. These reforms are expected to enhance the quality of public services provided by the national government and by regional and local authorities. The project will also help make civil servants more accountable to the public, heighten transparency in government, and increase civic participation in issues of public interest.</p> <p>In State modernization, the program seeks to: (a) strengthen capacity to formulate and implement national and sector policies; (b) improve human resources management; (c) support the installation of electronic government services; (d) develop and implement a new public procurement policy, including the design and installation of an integrated information technology system; and (e) support PCM and MTC modernization.</p>	

The specific objectives in support of decentralization are as follows: (a) to apportion authority and functions between the different government levels, together with their respective financing sources, so as to guarantee long-term fiscal sustainability; and to design mechanisms and establish conditions for transferring the corresponding responsibilities; (b) to strengthen key institutions responsible for the coordination and oversight of decentralization, setting up suitable information systems for this purpose; (c) to support the development of cross-cutting management systems for use when the new regional governments take office; and (d) to strengthen management capacities in a selected group of municipalities.

Description: The program is divided into two subprograms: (a) State modernization; and (b) decentralization.

1. **State modernization (US\$13.9 million):** This subprogram will provide support for implementation of the recently approved Framework Law on State Modernization, and for other modernization actions consistent with this law's objectives. The subprogram consists of six components, namely (a) organization of government; (b) human resources management; (c) electronic government; (d) management of government procurement; (e) a pilot program in the Ministry of Transport and Communications (MTC); and (f) a program to modernize the Office of the President of the Council of Ministers (PCM).
2. **Decentralization (US\$19.9 million):** This subprogram will support the Peruvian State in the initial stages of implementing a gradual and sustainable process of political, fiscal and administrative decentralization, helping to develop the precepts and strategy established under the Decentralization Framework Act. The subprogram consists of four components, namely (a) legal framework; (b) strengthening of lead agencies; (c) support in setting up regional governments; and (d) establishment of a system to provide training and technical assistance to municipal governments.

The Bank's country and sector strategy:

The Bank's strategy in Peru is to support the creation of a modern, efficient and decentralized State, with a focus on public accountability. State modernization means rationalizing the existing structure of agencies and programs that currently obstruct policy design. It also entails reforming human resources management and making further progress in the modernization of budgetary and procurement systems. The strategy for decentralization is to promote a gradual process that clearly defines the jurisdictions of each level of government, together with the corresponding funding sources, and

ensures that local institutions have the capacity and instruments they need to discharge the functions assigned to them. This operation will support the Bank's strategy and has been included in the Country Paper.

Environmental and social review:

Given the nature of the activities to be funded through the program, no direct environmental or social impacts are foreseen. Nonetheless, the project will address the following issues in particular: (a) gender or ethnic discrimination in government, and non-discriminatory treatment of citizens by the State; (b) guarantees of political participation for ethnic minorities and by gender; (c) MTC modernization and decentralization—environmental rules and procedures; (d) environmental aspects of annual decentralization plans; and (e) civil-society participation.

Benefits:

Improvement of the organizational structure of national government: The program will seek to improve the organizational structure of government at the national level, supporting the development of its regulatory and policy-making capacities, improving staff management, simplifying administrative and procurement procedures and making them more transparent, strengthening sector agencies and getting rid of redundant functions. The program's direct beneficiaries will be the PCM, MEF and MTC. The first of these bodies will increase its capacity for general government coordination; the second will develop its intergovernmental fiscal oversight capabilities; and the third will receive support for sector capacity strengthening, together with assistance in transferring operational functions to subnational authorities.

Support for the decentralization process: The program will strengthen the legal framework to facilitate a sustainable, organized and fiscally responsible decentralization process. It will also provide support for the National Decentralization Council (CND), along with regional governments and a selected group of municipalities to further strengthen their management capacities.

Risks:

Weakening of the technical foundations of State modernization and decentralization processes: The main risk associated with the operation stems from one of its major strengths, namely the reform's high level of support. This has generated a frenetic legislative and political pace that could undermine the technical foundations of State modernization and decentralization, and replace them with inconsistent and even cosmetic measures. Nonetheless, there is a consensus that the program's legal design and implementation both need to adopt prudent measures and draw on successful international experiences, without neglecting country-specific aspects.

Implementation and coordination of components: The scope of the issues covered by the operation could generate this additional risk. The government might find it difficult to coordinate the various components, and the Bank might view the value added by its intervention as rather diffuse. The design of the program has tried to minimize implementation problems by forging a high level of synergy between its various components, and producing an execution structure that coordinates participating institutions. With respect to the Bank's intervention, the project establishes a series of indicators to enable this to be measured over time. In addition, the value added by the Bank can be appreciated through the contribution it has already made to the definition of legal instruments and policies that have helped give orientation to Peru's dynamic State reform process and lay sound foundations for executing the program.

Political process of legislation: Given the political nature of the process of passing laws, there is a risk that the version of some of these legal instruments adopted by Congress may conflict with the principles set out in this document. The final text or texts could end up obstructing the execution of certain components by introducing inappropriate legal elements or incorrect institutional incentives for implementing certain aspects of State reform or decentralization. To minimize this risk, the project defines a group of criteria and proposes periodic meetings to support the legislative work and evaluate the degree to which this is consistent with program objectives.

**Special
contractual
clauses:**

Prior to initial disbursement:

- a. Creation of a project coordination unit (paragraph 3.4).
- b. Formal establishment of subprogram co-executing units (see paragraph 3.5 and 3.10).
- c. Signing of an agreement between the PCM and INEI, or transfer of INEI information technology functions to the executing agency, and creation of the Council for Electronic Government (see paragraph 3.6).
- d. Appointment of officers responsible for the MTC support component (see paragraph 3.8).
- e. Signing of MTC/PCM/MEF management agreement (see paragraph 3.8).
- f. Approval of the first annual work plan (see paragraph 3.16).
- g. Approval of operating manual (see paragraph 3.18).

- h. Presentation to the Bank of the evaluation and monitoring system design, together with existing baselines (see paragraph 3.28).

Other special conditions:

- a. Recognition of expenses and retroactive financing (see paragraphs 3.34 and 3.35).
- b. Reimbursement of project preparation facility (PPF) resources (see paragraph 2.38).

Poverty-targeting and social sector classification:

This operation does not qualify as a social-equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704), nor does it qualify as a poverty-targeted investment (PTI).

Exceptions to Bank policy:

None

Procurement:

The procurement of goods and services will follow standard Bank procedures. International competitive bidding will be used for procurements valued at US\$350,000 or more; national procurement procedures are recommended for contracts in smaller amounts, provided they do not conflict with Bank policies. In the case of consulting services, international competitive bidding will be used when the estimated contract value is US\$200,000 or more. Bank procedures will be followed; these are included in Annex C of the loan contract, with the exception of training services contracts in amounts equal to, or less than, US\$10,000 and individual consulting work in amounts equal to, or less than, US\$25,000 for which the executing agency shall use national legislation.

I. REFERENCE FRAMEWORK

A. Introduction

- 1.1 Taking advantage of the transition government and especially the election of President Toledo, and supported by a wide spectrum of the country's political and social forces, Peru has embarked upon an ambitious policy of democratization and State reform that ranges from restoration of an independent judiciary and legislature, to modernization of the executive branch and decentralization. The country's determination to reorganize the State has been expressed through the National Accord signed by all political parties on 15 July 2002, following intensive consultations with civil society. This operation began as a Bank response to the government's request for support for this wide-ranging reform program. It also forms part of a broader effort that includes projects such as congressional strengthening, currently under preparation.
- 1.2 This State modernization and decentralization program contains a number of innovative features. Given the nature of the Peruvian political process, the project preparation phase has required simultaneous technical assistance actions that have actually anticipated part of project execution. The Bank has supported both Government and Congress throughout the project design phase, and has worked with numerous stakeholders to define strategies and develop legal instruments laying sound foundations for the reform actions included in the program. During the current year, Congress has passed a constitutional reform bill that paves the way for creation of new regional governments. It has also approved framework laws on decentralization and on modernization of public administration. President Toledo has called regional and municipal government elections for the month of November, with mandates to begin in January 2003.
- 1.3 Given the need to ensure the consistency of the process the country is embarked upon, this operation is divided into two closely linked subprograms—national government modernization and decentralization. The general aim of the various components is to strengthen activities of policy design, regulation and government administration, and create conditions to facilitate a fiscally responsible and effective decentralization process. Starting in early 2003, the Government will come under increasing pressure from the restructuring process to make progress in State modernization and push ahead with decentralization. Approval of the program during the course of this year will increase the chances of this complex process continuing to attract a suitable level of support.

B. Macroeconomic aspects

- 1.4 Following nearly four years of stagnation in which the average growth rate was below 1%, the Peruvian economy began to recover in the final quarter of 2001, when GDP grew by 3%. This was followed by a 5.3% expansion in the second quarter of the current year. To help restore economic confidence, the authorities

reached an agreement with the International Monetary Fund (IMF) for a two-year standby program, which was approved in February 2002. The program's medium and long-term objectives are based on further structural reforms, emphasizing privatization, tax and pension reform, and the need to safeguard the financial and trade-reform achievements of the past decade.

- 1.5 In this context, State modernization to increase the efficiency and efficacy of public expenditure is critical. Another essential element for meeting fiscal deficit targets is that the ongoing decentralization process should be carried out in a controlled and fiscally responsible manner. This means that any increase in fiscal transfers from national to subnational governments should be matched by a transfer of responsibility for the provision of public services. This will generate a neutral fiscal impact on national finances, and create a suitable regulatory framework for strengthening the subnational taxation system. The project will help the Government achieve these strategic objectives for the country.
- 1.6 A recent IDB and World Bank study on public expenditure¹ has revealed a trend towards fiscal volatility over recent years. Fluctuations in national income can hinder a smooth decentralization process, because subnational governments rely heavily on central government transfers.

C. Institutional setting

- 1.7 The Peruvian State contains four levels of government: (a) central government with national jurisdiction; (b) 25 regional governments with departmental jurisdiction; these in turn consist of (c) 194 provincial municipalities; which themselves are divided into (d) 1,864 district municipalities.

1. National Government

- 1.8 Public administration at the national level is conducted through 16 ministries, 63 decentralized public bodies (DPBs), 25 Regional Government Transitional Councils (CTARs) with jurisdiction over the departments, 11 regulatory bodies, 120 public firms and a large number of special programs. Until recently the State was held to a very low level of accountability, given the deficiencies existing in democratic institutions. Over the last decade, oversight mechanisms and democratic balances have not functioned properly, and there are still shortcomings in State actions to promote equal opportunities between the different population sectors. The institutional capacity of public administration deteriorated steadily in the second half of the 1990s, as the reform process embarked upon at the start of the decade ground to a halt. This was compounded by a lack of political will on the part of the government of the day to push through a convincing modernization and

¹ World Bank/Inter-American Development Bank. Restoring Fiscal Discipline for Poverty Reduction. Public Expenditure Review. Washington, June 2002.

decentralization program. Nonetheless, progress should be acknowledged in specific areas, especially in the Ministry of Economic Affairs and Finance (MEF), which, among other things, installed an integrated financial management system (SIAF) in all central government bodies.

- 1.9 The excessive concentration of public expenditure in the Ministerial Office of the President (MIPRE)² seriously weakened sectoral ministries, which lost not only operational capacity but also real influence in the formulation of public policies. In addition, the fragmented institutional apparatus of the State, in which various organizational and operational regimes coexist, raises major obstacles to coordination. Another related problem concerns overlapping functions; to give an example, at least four different national bodies run housing programs and produce policies for that sector.
- 1.10 Regulatory bodies face potential constraints on their action. Except for the Central Reserve Bank and the Superintendency of Banking and Insurance, whose autonomy is protected by the Constitution, the other regulators are treated as DPBs. As such, their autonomy can be undermined by discretionary government decisions, for example in the allocation of budgetary funding or in the approval of wage rates.
- 1.11 This situation is complicated by a plurality of staff management regimes and the non-existence of horizontal information and control systems. Central government is thought to employ some 700,000 staff, although their precise number, distribution or wages are unknown, given the absence of a system or an entity to process all the relevant information. Public-sector workers are hired under three very different regimes in terms of employment conditions. As these are inconsistent with the tasks undertaken, the situation generates major dysfunctions in human resource management. In addition, there is evidence of wage discrimination on gender grounds. Using data from the household survey run by the National Institute of Statistics and Informatics (INEI), the Bank (SDS/POV) calculates that the average wage gap between men and women could be as large as 18%.³
- 1.12 There is evidence of a lack of transparency and foot-dragging by the State in dealing with citizens, and in facilitating internal communication at the national government level. The implied transaction costs could be reduced by introducing information and communication technologies, which would also make government actions more transparent. A number of deficiencies have been identified in this area, such as: (a) the lack of a consistent State strategy for the development of

² In 2001, MIPRE executed 17% of the total budget. This percentage was surpassed only by the MEF (37%, including debt service), and exceeded the combined shares of education (7%), health (5%) and transport and communications (4%).

³ In the case of workers with higher education, women's wages are estimated to be 22% lower than their male counterparts; for workers with secondary schooling the gap is 28%; and for those that have only completed primary school the estimated differential is 10%.

information technologies for public and intra-State use; (b) INEI, attached to the Office of the President of the Council Ministers (PCM), does not exert the *de facto* leadership it should, because of institutional weakness; and its actions also overlap with other public bodies, such as the SIAF unit in the MEF; (c) shortcomings in coordination mechanisms between State bodies with information responsibilities; (d) a lack of specific rules governing the use of information infrastructure, systems and content; (e) few public services available online; (f) government systems that are mutually isolated and poorly integrated; and (g) a lack of awareness among top civil servants, and inadequate training of professional staff in these areas.

- 1.13 In addition, the central government procurement system lacks transparency in the awarding of contracts and the speed at which purchase decisions are taken. The corresponding procedures are carried out entirely on paper by each public body in isolation, without central evaluation processes. The absence of a computerized procurement system means the government loses an opportunity to add transparency, integration, efficiency and effectiveness to public administration. The regulatory body for procurement, the Supreme Council for State Contracting and Procurement (CONSUCODE), a decentralized body also attached to the PCM, could in future coordinate a central database and decentralized computerized purchasing system, in order to improve procurement management.
- 1.14 The PCM is responsible for overall coordination of central government administration, in addition to having 15 decentralized government bodies attached to it. Despite this substantial workload, the appointment of a President of the Council Ministers with exclusive responsibility for this office is a very recent development. The practice during the past decade was to temporarily appoint a Cabinet minister on a rotating basis to run the PCM. As a result of the new approach, the PCM has gained a fundamental role in the conduct of State business and the coordination of public policies.⁴ Nonetheless, it still requires institutional strengthening to reach the operational level needed to carry out its functions.

2. Intergovernmental structure of the State

- 1.15 Peru is one of the region's most centralized countries, despite having over 2,000 municipal government authorities – far higher than the per capita average for Latin America. In 2000, central government accounted for 87% of public revenues after transfers, compared to an average of 65% in the region's medium and large countries, and 54% in developed countries. Public expenditure displays a similar pattern: in 2000, subnational governments were responsible for 12% of total spending, compared to 34% in Latin America as a whole, and 43% in developed countries.

⁴ During the past year its staff has grown from 100 to over 300, mainly as a result of taking over a new group of decentralized public bodies.

- 1.16 Between 1985 and 1990, the Government attempted to implement a decentralization program that suffered from serious design faults, including: (a) compulsory creation of 12 regions to subsume the 25 departments in existence until then (including Lima and El Callao); this provoked struggles for political influence and budget share between the former departments in the new regional governments; and (b) a disorganized fiscal regime that was inconsistent with the responsibilities transferred. In 1992, the Government reversed this process by suspending the regional governments, replacing them with a system of deconcentrated central government administration in each department (Transitional Regional Administration Councils- CTARs).
- 1.17 Until very recently, Peruvian legislation did not provide the foundations for a suitable decentralization process. Following a constitutional reform, and the Framework Law on Decentralization, a general framework has begun to take shape for moving this process forward, both in the political domain and in the fiscal and institutional spheres. Nonetheless, a number of laws still remain to be drafted and approved to develop the laws mentioned above – including those relating to the regions, municipalities and fiscal decentralization. The project has drawn on lessons from past decentralization experiences, and has exploited them in assisting the Government and Congress in carrying out the legal reforms.
- 1.18 The regional governments will start their mandates in January 2003, replacing the CTARs, and will have autonomy in exercising authority and managing their own resources. Regional administrations will need sufficient human resources, institutional capacity and management tools to develop stronger institutions and fulfill the various responsibilities that will progressively be transferred to them.
- 1.19 Municipal governments are governed by operating regulations that discourage them from obtaining their own tax revenue and restrict their managerial autonomy.
- 1.20 There is evidence of insufficient managerial capacity in many local governments, and a shortage of the tools needed for adequate service provision. The districts, in particular given their size, often display serious shortcomings in terms of management capacity. Given their low levels of institutional and financial strength, the municipalities' real scope of action is much less than what is assigned to them under current legislation. There is some evidence of sizeable domestic borrowing by several municipios, mainly to cover liabilities arising from retirement pensions and social provisions that are poorly documented and underfunded.

D. Government strategy

- 1.21 Given the problems discussed above, shortly after the transition government took office in 2001, a broad consensus was reached between the various political, economic and civil-society sectors in Peru, on the need to modernize national government and develop a suitable design for a decentralized State. The

administration of President Toledo has made this a high-priority policy and given the head of the PCM responsibility for coordinating the corresponding efforts. The Government's view on this issue, set out in an official document published in late 2001,⁵ stresses as objectives to be pursued a more efficient, more decentralized and more democratic State.

- 1.22 In January 2002, Congress passed the Framework Law on the Modernization of State Administration, which, among other things: (a) defines the role of the PCM as coordinator of this policy; (b) establishes management agreements as the central instrument through which the PCM and MEF implement the public administration modernization policy and establish a central government oversight scheme; (c) commissions two pilot modernization programs, one in the PCM itself and the other in the Ministry of Transport, Communications, Housing and Construction (MTC); and (d) sets deadlines for the Government to submit new laws, including the Executive Power Law (passed in April 2002), the National Control System and Comptroller General Law, the Public-Sector Employment and Civil Service Career Law, along with organic sectoral laws and others relating to management systems. As with the laws on decentralization, the Bank is assisting Government work in this area involving studies and legal proposals that will be sent to the Congress in due course, and in preparations for implementing institutional modernization plans. A practical effect of the government's modernization program was the decision implemented in July this year to abolish MIPRE, as part of a set of actions aimed at improving the managerial effectiveness of government and strengthening sectoral ministries. Another result is the creation of the Ministry of Construction and Housing (previously part of the MTC along with sanitation), which is intended to eliminate overlapping functions in this area.
- 1.23 In March 2002, Congress ratified a constitutional reform creating regional governments (this time based on the existing departments). The reform also defines their basic political structure, envisages a gradual transfer of functions to these levels of government, and lays down the design principle for participatory public budgets, among other matters. During the same month, Congress also passed the Regional Elections Law, in preparation for the November electoral process in which regional and municipal authorities will be elected. Earlier, in July, it passed the Decentralization Framework Law (LBD). In all of these cases, a broad political consensus was achieved. The latter piece of legislation defines the principles governing the decentralization process, covering: (a) the distribution of services and competencies between the three levels of government; and (b) transfer mechanisms and fiscal revenues, and the National Decentralization Council (CND). This was created as an intergovernmental body to oversee the decentralization process. It consists of representatives from both national government (PCM and MEF), and

⁵ Office of the President of the Council of Ministers, *Programa de Modernización, Descentralización y Democratización del Estado (PMDD)* [State modernization, decentralization and democratization program (PMDD)]. Lima, November 2001.

regional and local governments, and is presided over by a minister without portfolio appointed by the President of the Republic. This body provides support for institution strengthening among regional and local governments; it is also responsible for channeling international technical assistance, drawing up plans for the transfer of resources and competencies to regional and local governments, and for running an information system to monitor the decentralization process, among other functions.

- 1.24 The Framework Law defines the basic intergovernmental fiscal structure in Peru, which involves four main types of financial instrument: (a) automatic non-conditional compensatory transfers—Regional Compensation Funds (FONCOR) and Municipal Compensation Funds (FONCOMUN)—based on a transparent distribution formula defined by the MEF in agreement with CND; (b) conditional transfers earmarked for investment, distributed in a similar way; these are administered through the Intergovernmental Decentralization Fund (FIDE), which is available to regional governments with projects under conditions established transparently by CND; (c) internally generated resources, including various taxes—municipios now collect property tax and vehicle duties, among others, while a special law is to be introduced to define taxes that are transferable to the regions; and (d) loan financing regulated by the principles of the Fiscal Transparency and Prudence Act. All these instruments will be developed and regulated under the Fiscal Decentralization Act.
- 1.25 Congress anticipates passing the Regions Law before the November elections. In addition, during the next few months a set of laws will be considered that include, apart from the Fiscal Decentralization Act mentioned above, reform to the Municipalities Law and other complementary instruments. The Bank is actively supporting the design stage of these projects, providing technical assistance to the PCM and MEF, and working closely with Congress in preparing this program.
- 1.26 Meanwhile, the CND will strengthen its institutions to take on the major tasks assigned to it by law in its role as supervisor of the decentralization process. So far, it has taken over some of the infrastructure and staff of MIPRE, in particular the part that previously had been responsible for relations with the CTARs. Meanwhile the MEF has the challenge of adapting its structure and capacities to carry out intergovernmental fiscal oversight in a country that is becoming increasingly decentralized from the fiscal point of view. In addition, also in accordance with the Framework Law, the CND together with MEF will supply basic management systems to the new regional governments and then extend them to the municipal authorities. The SIAF and the National Public Investment System are priorities in this regard.

E. The Bank's strategy in the country

- 1.27 The Bank's strategy in Peru is to support the creation of a modern, efficient and decentralized State, emphasizing the latter's public accountability. State modernization means rationalizing the existing structure of agencies and programs that currently obstruct policy design. It also involves reforming human resource management and making further progress in modernizing budgetary and procurement management systems. On decentralization, the strategy involves a gradual process to clearly define the competencies of each level of government, make explicit the corresponding financing sources, and ensure local institutions have the capacity and tools they need to discharge the functions assigned to them. The current operation, which is designed to support the strategy objectives, is included in the Country Paper.
- 1.28 Achievement of modernization and decentralization objectives will require the country to make a sustained long-term effort. The Bank is keen to continue supporting this process in the future.

F. Experience of the Bank and other bodies

- 1.29 The most direct forerunner among similar Bank operations in Peru is the Public Sector Modernization Program (US\$58 million) approved by the Executive Board in 1996. The corresponding loan contract was never signed by the government, however, because of a lack of political will on the part of the Government (according to the project team that prepared the operation). Other loans, both from IDB and from the World Bank, have demonstrated that the likelihood of success increases with the political support received, which augurs well for the current program.
- 1.30 Both the literature and assessments made of institutional reform programs suggest that intervention needs to be as comprehensive as possible, to achieve the established objectives. It is not sufficient, for example, to increase a country's revenue collection capacity, without improving the efficiency and efficacy of public expenditure. Similarly, in many cases decentralization processes have been undertaken without adapting the national administration to the new State structure, thereby creating problems with overlapping functions and redundant public expenditure. Many countries that embark upon decentralization processes tend to boost the level of financial transfers from central to subnational governments, without a matching transfer of services, thereby generating fiscal imbalances. This program attempts to address these problems, taking into account the execution capacity of a country such as Peru, by organizing components around a group of shared and mutually synergetic aims.
- 1.31 The modernization subprogram has been designed on the basis of the lessons learned from other Bank projects, particularly public sector reform and

modernization projects in Uruguay. Such projects underscore the importance of embracing a comprehensive approach to reform that combines horizontal initiatives for transforming transversal institutions of government such as the civil service, organizational structure, purchasing, and electronic government, with vertical initiatives that introduce tangible changes to sector departments and entities. In this way, it will be possible to move forward on two fronts that is both general and vertical so that reform can bring about specific results that are also sustainable over time.

II. THE PROGRAM

A. Objectives

- 2.1 The aim of this project is to support an effective process to modernize and decentralize public administration in Peru, by redefining key institutional rules and putting new administrative structures and systems in place. The ultimate aim of these reforms is to enhance the quality of public services provided by national, regional and local governments, and to make civil servants more accountable to the public, make government more transparent, and increase participation by citizens in issues of interest to them.
- 2.2 More specifically, on modernization, the program seeks to: (a) strengthen capacity for formulating and implementing national and sectoral policy; (b) improve human resource management; (c) support the installation of electronic government services; (d) develop and implement a new public procurement policy, including the design and installation of a comprehensive informatics system; and (e) support modernization of the PCM and MTC.
- 2.3 In the case of State decentralization, the specific objectives are as follows: (a) to distribute competencies and functions between the different government levels, together with their respective financing sources, so as to guarantee long-term fiscal sustainability, and design mechanisms and conditions for transferring the corresponding responsibilities; (b) to strengthen key institutions responsible for coordination and oversight of decentralization, setting up suitable information systems for this purpose; (c) to support the development of cross-cutting management systems for use when the new regional governments take office; and (d) to strengthen management capacities in a selected group of municipios.

B. Description of the program

- 2.4 In view of the variety of interventions envisioned, the program has been divided into two closely related subprograms: (a) State modernization; and (b) decentralization.

1. State modernization subprogram (US\$13.9 million)

- 2.5 This subprogram will support implementation of the recently passed Framework Law on State Modernization, together with other modernization actions consistent with this law's objectives. The subprogram consists of six components.

a. Organization of government (US\$300,000)

- 2.6 This component will support a set of actions with the following aims: (a) to rationalize the administrative apparatus of the State, reducing the number of bodies and eliminating redundant functions; (b) to clarify and simplify the organizational structures of ministries and decentralized public bodies, strengthening the capacity of sectoral ministries to formulate policies and implement them; (c) to guarantee the necessary autonomy of regulatory bodies; and (d) to facilitate reorganization of the de-concentrated units of central government, to coordinate with the process of creating and installing regional government authorities.
- 2.7 The project will support the following activities: (a) preparation of a map of the State making an inventory of agencies and programs existing at the present time, in order to detect superfluous and duplicated functions; this will result in proposals being formulated to rationalize these entities in accordance with the provisions and faculties granted to the executive branch by the framework Law on State Modernization; (b) reform of legislation governing regulatory bodies and agencies, according to the framework provisions established in the LOPE, (c) regulatory development of LOPE provisions, in order to adapt the State apparatus to its new arrangements, in particular the new regime for decentralized public bodies, and that relating to deconcentrated government agencies throughout the country, including the creation of regional government delegations.
- 2.8 The cost of this component amounts to US\$300,000, which will finance consulting services (US\$290,000) and the procurement of informatics equipment and systems (US\$10,000).

b. Human resource management (US\$3.5 million)

- 2.9 According to the most complete diagnostic study currently available, which was carried out in 2001 by a top-level multisectoral ministerial commission, the management of human resources employed by the State suffers from many serious dysfunctions that obstruct the effective and efficient running of public services.
- 2.10 The program seeks the following: (a) unification of the basic legal regime governing civil servants, providing legal security and stability to public-sector employment, and applying principles of merit and capacity for career entry and development; (b) unification of payrolls and information on available staff, using common standards throughout the State apparatus, to facilitate planned management of State human resources and effective control of its fiscal implications; (c) implementation of policies and instruments on incentives, pay, training and redistribution of staff, in order to reconcile stability with effective and efficient management of State human resources; and (d) to help improve services to citizens.

- 2.11 The operation will support development and implementation of this law. Activities to be carried out are the following: (a) regulatory development of the future Public-Sector Employment and Civil Service Career Law, preparing the regulations needed to apply it effectively; (b) creation and implementation of a supervisory body for State human resources, attached to the PCM, designing its functions, structure and staffing, selection of personnel, planning of activities and carrying out awareness-raising actions throughout the State on its role and functions; (c) design and installation of a single registry of public-sector employees, based on a standardized payroll integrated in the SIAF; (d) support for the lead agency in formulating active human-resource policies; (e) design and implementation of a training program for State administration staffing teams; and (f) study of the economic costs of regulatory proposals. A study will also be carried out to diagnose any problems in the way citizens are treated in their dealings with the State. In particular, this will identify elements of discrimination that may exist against indigenous ethnic groups for cultural, language and other reasons, and will propose policy alternatives to correct them.
- 2.12 The cost of this component amounts to US\$3.5 million, distributed between consulting services (US\$3.03 million), hardware, software and furniture (US\$250,000), and training (US\$220,000).

c. Electronic government (US\$4 million)

- 2.13 The work of public institutions can be monitored effectively, and cumbersome administrative procedures that impose high costs on individuals and firms can be simplified, if the government adopts new systems and technologies.
- 2.14 In this area, the component seeks: (a) to increase citizens' access to State information and services; and (b) to improve the efficiency of public administration. To this end, a policy on electronic government (e-government) will be drawn up and implemented, under three sub-components: (a) institutionalization of the organization, policies and regulations of e-government; (b) development and implementation of online services (Peruvian State portal); and (c) development and implementation of the State intranet. These efforts will be complemented with staff training and public dissemination of the new tools developed. The total cost of the component is estimated at US\$4 million, to be used to finance consulting services, commercial software, and the design and implementation of systems, including training (US\$3.1 million), together with procurement of computers and peripheral devices (US\$900,000).
- 2.15 **Institutionalization.** The institutionalization of the organization, policies and rules on e-government will include hiring consulting services to support: (a) installation of an Electronic Government Office in the PCM; (b) establishment of multisectoral, subnational work committees with civil-society participation; and (c) review of the current regulatory framework.

- 2.16 **State portal.** The development and implementation of online services (Peruvian state Portal) will be based on contracting consulting services and the procurement of informatics infrastructure to: (a) design the conceptual model and communications standards; (b) design the business rationale of components to be developed and mechanisms for interaction with State databases; (c) design and implement electronic payment media; (d) implement validation mechanisms (PIN number) for citizens and firms, to monitor transactions (tracking number); (e) identify and select 50 key procedures carried out by citizens, which will be redesigned to adapt to the web and call-center environment; (f) installation of the 50 key procedures online; (g) design, procurement and installation of hardware infrastructure, along with security, connectivity, and communications software for the State portal; and (h) design of systems for publishing regional information through the State portal.
- 2.17 The process of identification, selection and prioritization of the 50 key procedures to be put online will consider technical analytical criteria which were previously established and are available in the RE3/SC3 technical files.
- 2.18 **Intranet.** For the development and implementation of the State intranet, the following activities are planned: (a) conceptual design of the intranet, including data security systems; (b) design of models and policies on connectivity and integration; (c) programming of business rationale components and web presentation platform; (d) implementation of specific applications; (e) design and implementation of intranet infrastructure encompassing hardware, software, security, connectivity and communications; (f) design of intra-governmental coordination mechanisms; (g) design and installation of digital systems for the exchange and storage of official information and online audit and monitoring systems; and (h) design and implementation of sectoral models for collaboration, exchange, conservation and publication of information through the State intranet.

d. Management of government procurement (US\$4.2 million)

- 2.19 The lack of systematization in the State purchasing and procurement process imposes high transaction costs on the private sector, society and the State, while failing to ensure transparency in the supplier market.
- 2.20 The program seeks to increase transparency and management capacity of the Peruvian State in government procurement, by implementing two subcomponents: (a) institutional strengthening of CONSUCODE; and (b) development and implementation of the State Electronic Procurement and Contracting System (SEACE). Carrying out these activities will require funding for the necessary informatics infrastructure together with training, dissemination and system support. The total cost of the component is US\$4.2 million, divided between consulting services, including CONSUCODE strengthening, development of the system and procurement of commercial software (US\$1.5 million); procurement of computers

and peripheral devices (US\$1.7 million); and training, dissemination, support and system connectivity (US\$1 million).

- 2.21 **Strengthening of CONSUCODE.** For institutional strengthening in CONSUCODE, local and international consultants are expected to be engaged to assist in drafting bidding documents for the process to select the firm that will develop the SEACE. The subcomponent will also review the regulatory framework for government purchases; bring CONSUCODE up-to-date in terms of public procurement techniques and organizational adaptation; develop the goods and services catalogue; and prepare a public-sector contracting handbook.
- 2.22 **Development and implementation of SEACE.** SEACE is a custom-made software, whose general design was based on a study of international experiences.⁶ It has two outstanding characteristics: (a) public dissemination of information on all bidding processes; and (b) development of electronic transactions for public procurement. The system will include electronic mechanisms for issuing invitations to tender, transmission of bidding documents, reception of bids, registration of suppliers, Dutch auction-type e-commerce, publication of the results of bidding processes and a comparative evaluation of contracted prices. With SEACE installed, a new central database of public procurement will be set up in CONSUCODE, connected to SIAF-MEF. This will facilitate central supervision and evaluation of bidding processes and their results, while at the same time maintaining the decentralized execution of purchasing processes. SEACE will be installed on a web platform, so any contracting entity or provider will be able to access the system through a commercial web browser over the Internet, even from public booths if the user concerned does not have its own infrastructure. In addition, this Internet platform will give regional governments easy access to SEACE, once they are set up, for, as it does not use a client-server platform, no ad hoc infrastructure (personal computers, or client software) is needed to operate in the system. Through CONSUCODE, the State will retain all intellectual property rights pertaining to SEACE and will be the owner of the source code of the software developed.

e. Pilot program: MTC (US\$1 million)

- 2.23 MTC has a wide-ranging impact on the economic and social development of Peru through its two key subsectors: transport and communications. Of these, transport is particularly important to the decentralization process, either because some of its competencies are likely in the near future to be exercised by subnational governments (such as running the departmental highway infrastructure), or because this is already happening, as in the case of urban transport or neighborhood-rural roads, which are already under municipal jurisdiction. The strategy for

⁶ In conjunction with the MEF, during 2001 CONSUCODE undertook three missions to study procurement systems in Mexico, Brazil and Chile.

modernization and decentralization of the transport subsector in MTC has divided the management of highway infrastructure into three agencies: Provías Nacional for the national highway network; Provías Departamental for the departmental or secondary highway network; and Provías Rural for rural or neighborhood roads. The general aim of this component is to support decentralization processes in the transport subsector at regional and local level, as well as modernization of MTC management, in fulfillment of the mandate contained in the State Modernization Law. The cost of this component amounts to US\$1 million, distributed between consulting services (US\$915,000); computer equipment and software (US\$10,000) and training (US\$75,000) for carrying out the activities. In particular, the following subcomponents have been defined: (a) development of general MTC management systems; and (b) support for modernization and decentralization of the transport subsector. A description of the activities of this component are available in the RE3/SC3 technical files.

f. PCM modernization (US\$1 million)

- 2.24 The PCM currently plays a fundamental role in State administration, through coordination of the executive branch and monitoring of the decentralization process. These tasks, whether new or strengthened, justify the program's aim of strengthening institutional capacities and internal management in the PCM, as the body responsible for policy direction and general government coordination, and in its role as supervisor of State modernization.
- 2.25 Key areas that need support in the PCM include the following: development of strategic planning systems to coordinate the supervision of government objectives; multisectoral and interagency coordination; review of regulatory projects; technical support provided to commissions; and its role in promoting mechanisms of consensus and relations with civil society.
- 2.26 Specifically, the component will finance the following activities: (a) design of a Government Management Assessment System to make it possible to support other government bodies in fulfilling strategic commitments established in management agreements; (b) implementation of mechanisms and units to optimize the relation between the executive and legislative branches; (c) implementation of intersectoral and interagency coordination mechanisms in the liaison offices of each sector and institution; (d) implementation of the new organizational structure, including new units, processes and systems; (e) design of new systems for monitoring the DPBs attached to it; and (f) strengthening of PCM internal management, including the procurement of informatics equipment and systems, and staff training.
- 2.27 The total cost of the component amounts to US\$1 million, divided between the hiring of local and international consultants (US\$505,000), procurement of computers, peripheral devices and furniture (US\$440,000), and training (US\$55,000).

2. Decentralization subprogram (US\$19.9 million)

- 2.28 This subprogram aims to support the Peruvian State in the initial stages of implementing a gradual and sustainable political, fiscal and administrative decentralization process, co-operating in developing the precepts and strategy defined by the Decentralization Framework Law. The subprogram consists of four components.

a. Legal framework (US\$1 million)

- 2.29 Funding will be provided for technical assistance to establish a set of legal instruments (laws and regulations) for developing the Decentralization Framework Act. Three subcomponents have been identified: legislative framework, regulation of laws, and studies, for a total cost of US\$1 million in consulting services. A description of the activities of this component is available in the RE3/SC3 technical files.

b. Strengthening of supervisory bodies (US\$4.4 million)

- 2.30 The subprogram will provide funding to strengthen MEF mechanisms responsible for running financial management and public investment systems, and to develop capacity to monitor intergovernmental finances. This component will also lend support for institutionalization of the recently created CND, development of the intergovernmental information system, and implementation of a technical services center for regional and local SIAFs. A description of the activities of this component is found in the RE3/SC3 technical files.
- 2.31 The amount allocated to this component is US\$4.4 million. It will be used to finance consulting work (US\$2 million), equipment, information systems, and furniture (US\$2.15 million), and training (US\$250.000).

c. Support for the installation of regional governments (US\$12 million)

- 2.32 In accordance with the Decentralization Framework Law, regional governments will be established at the start of 2003, when the presidents and councilors chosen in the regional elections take office. The new regional authorities will initially operate on the basis of the CTARs, assuming a limited number of functions, such as strategic land planning, and undertaking simple investments in equipment and infrastructure, and promoting regional productive investment, in accordance with their management capacities.⁷ In a second stage, following a continuous process of training and technical assistance for regional and municipal governments,⁸ the law

⁷ Decentralization Framework Law, Title IX, Chapter I, Second Complementary Provision.

⁸ Decentralization Framework Law, Title IX, Chapter I, Second Transitional Provision.

envisages that sectoral competencies will start to be transferred according to stages established by the law and decentralization plans to be defined by the CND. The program will support both stages of the process, firstly in creating administrative and management systems, and then providing technical assistance for the transfer of competencies. The cost of the component is calculated as US\$12 million, divided between contracting for consulting services (US\$4.2 million), equipment and software (US\$5.9 million), and training and workshops (US\$1.9 million), organized around two subcomponents.

- 2.33 **Creation of administration and basic management systems in regional governments.** Once the new regional authorities have taken office in early 2003, the program will assist them to implement administration and basic management systems. A basic management strengthening plan will be formulated with each of the 25 regional governments, based on a standard administrative model designed by the CND. This will be adapted to the specific needs of each region on the basis of individual institutional diagnoses. Typically, each plan will consist of between four and six institutional strengthening projects, chosen from a menu covering the following areas: (a) financial management; (b) administrative management; (c) public investment, planning and economic development; and (d) public participation.
- 2.34 **Support in the transfer of competencies.** Once the basic capacity of the new governments in the areas of financial management, administration of investments and procurement has been verified, the program will start to support the process of transferring sectoral competencies in each region. The Decentralization Framework Law visualizes this as a gradual process starting in late 2004. To accompany the process, funding will be provided for: (a) review and implementation of administrative processes for the new competencies; and (b) design and implementation of a training plan for regional and local governments in the transferred sectors.
- 2.35 The two latter activities will be specified in detail each year in Annual Decentralization Plans (PADs) to be prepared by the CND from 2004 onwards. These will be subject to the guidelines of the respective regional development plans and the national development plan. The PADs will specify the competencies to be transferred, the conditions under which transfer will take place, items to be funded to support improvements in service provision and the funding allocation mechanism. These items will include technical assistance in reviewing administrative processes, together with the necessary basic equipment. It is expected that the amount allocated to this subcomponent (US\$2.625 million) could finance the strengthening of management capacities to transfer four sectoral

competencies to the 25 regional governments.⁹ The chapter on program execution specifies the guidelines and general conditions governing the use of these funds.

d. Creation of a training and technical assistance system for municipal governments (US\$2.5 million)

- 2.36 In order to support the growing demands faced by municipalities in the decentralization process, the program will create a National System of Local Institution Strengthening (SNFIL). The CND will be able to finance this system and make it sustainable in the long run, using technical assistance funds from FIDE. More specifically, three subcomponents have been identified, all under the responsibility of the CND: (a) development of the SNFIL; (b) formulation of a national policy for municipal strengthening; and (c) pilot implementation. The resources of this component, totaling an estimated US\$2.5 million, will finance consulting services (US\$500,000), equipment and software (US\$1 million), and training workshops (US\$1 million).

C. Cost and financing

- 2.37 The total cost of the program is US\$40 million, of which the Bank will provide US\$28 million (70%) charged against ordinary capital, and the country itself will put up US\$12 million (30%).

Table II-1
Cost Table
(Thousands of US dollars)

Categories	IDB	Local	Total	% total
1. MANAGEMENT	2,945	354	3,299	8.3
1.1 Coordination	841	49	890	2.2
1.2 Program execution	1,954	305	2,259	5.6
1.2.1 Execution unit - Modernization	740	93	834	2.1
1.2.2 Execution unit - Decentralization	1,158	212	1,370	3.4
1.2.3 Equipment	56	-	56	0.1
1.3 Project preparation facility (PPF)	150			
2. DIRECT COSTS	23,841	10,059	33,900	84.8
2.1 State modernization	9,841	4,074	13,915	34.8
2.1.1 Organization of government	210	90	300	0.7
2.1.2 Human resource management	2,470	1,030	3,500	8.7
2.1.3 Electronic government	2,825	1,175	4,000	10.0
2.1.4 Management of government procurement	2,950	1,250	4,200	10.5
2.1.5 MTC pilot project	686	314	1,000	2.5

⁹ This would not include transferring responsibility for education or health, which would probably take place after execution of this project has been completed.

Categories	IDB	Local	Total	% total
2.1.6 PCM modernization	700	300	1,000	2.5
2.2 Decentralization	14,000	5,900	19,900	49.7
2.2.1 Legal framework	720	280	1,000	2.5
2.2.2 Strengthening of supervisory bodies	3,130	1,270	4,400	11.0
2.2.3 Support for regional governments	8,450	3,550	12,000	30.0
2.2.4 Training for municipal governments	1,700	800	2,500	6.2
3. CONCURRENT COSTS	300	-	300	0.7
3.1 Audit	80	-	80	0.2
3.2 Monitoring and evaluation	220	-	220	0.5
SUBTOTAL	27,086	10,424	37,510	93.8
4. NOT SPECIFICALLY ASSIGNED	634	624	1,258	3.1
4.1 Contingencies	634	624	1,228	3.1
5. FINANCIAL COSTS	280	1,277	1,507	3.8
5.1 Interest	-	737	748	1.9
5.2 Credit fee	-	479	479	1.2
5.3 Inspection and supervision (FIV)	280	-	280	0.7
TOTAL	28,000	12,000	40,000	100.0
(%)	70%	30%	100%	

- 2.38 The amortization period will be 20 years, with disbursements spanning an estimated five-year period. The rate of interest on the loan is variable, and there are inspection and supervision costs (1% of the loan amount) together with the standard commitment fee (0.75% on undisbursed balances). The loan will be made in United States dollars, drawn from the Single Currency Facility. Debt service will be paid out of MEF budgetary funds during the execution period, and will therefore be included in the local counterpart. The initial disbursement will include the sum of US\$150,000 to reimburse amounts spent under Loan 1413/OC-PE from the project preparation credit line (PPF), in accordance with current rules.

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The borrower in this operation will be the Republic of Peru. The program executing agency will be the Office of the President of the Council of Ministers (PCM), acting through the Public Administration Secretariat, which coordinates State reform. During program preparation, the Public Administration Secretariat was responsible for leading the operation and preparing the studies that were carried out. Program execution will be conducted through a coordination unit supported by three co-executor units.

1. Program coordination

- 3.2 A coordination unit (UCP) will be set up with responsibility for general coordination of project execution. This will be accountable to the PCM through its Public Administration Secretariat. The unit will ensure the general progress of the program; it will consist of a coordinator general, an assistant, two procurement experts, a financial-management specialist and a secretary. The unit will also be supported by three staff members appointed by PCM, MEF and CND, respectively, to ensure technical coordination of the different bodies participating in the program. Terms of reference of the coordinator general and the procurement and financial-management experts have been agreed and can be consulted in the program's technical files.
- 3.3 The UCP will have the following responsibilities: (a) to act as exclusive liaison with the Bank and to ensure compliance with the program's contractual clauses relating to execution; (b) to coordinate with organizations participating in the program; (c) to prepare program monitoring reports in conjunction with the co-executor units, and to facilitate cooperation and inter-relation between the two subprograms to realize the synergy of the project as a whole; (d) to open and maintain specific and separate bank accounts to manage the loan proceeds and the local counterpart funding; (e) to process procurement and contracting requests from the co-execution units and, where appropriate, to submit them to the Bank for its no-objection; (f) to prepare and present, to the Bank's satisfaction, disbursement requests and expense vouchers, along with six-monthly reports describing the use of made of the revolving fund; (g) to develop and implement adequate accounting, financial and internal control systems to manage program resources, which can be related to the PCM accounting-financial system; (h) to ensure maintenance of a suitable file of support documentation for procurement and contracting processes and disbursement requests; (i) to prepare and present the program's annual financial statements, duly certified by external accountants; (j) to cooperate in drawing up and consolidating annual operating plans defined by the two subprogram coordinations; and (k) to approve and submit to the Bank mid-term and final

progress reports, along with any others requested by the Bank during program execution.

- 3.4 The creation of the UCP, including appointment of the coordinator general and selection of its staff, will require the Bank's no-objection and will be a condition precedent to the initial disbursement of loan proceeds.

2. Program co-executing units

a. Modernization subprogram

- 3.5 The co-executor unit responsible for this subprogram will have a director with technical responsibility for its execution and for managing the staff assigned to it. Staff will consist of qualified professionals, working full-time on the program in the areas of: organization of government; human resource management; e-government; and the procurement system. These professionals will be hired with program funds, in accordance with Bank requirements and subject to its no-objection. The unit will also have participation from specialists responsible for executing each component, including a transport specialist who will be responsible for the MTC modernization pilot program. Program action plans specify the number, duration of hiring, cost and terms of reference of staff in this unit. It should be noted that there is already a group of staff and consultants supporting the PCM in program design, and these will form the basic nucleus from which the modernization co-executing unit will be formed. **Formal establishment of this unit will be a condition precedent to the first disbursement.**
- 3.6 An agreement will be signed between the PCM Public Administration Secretariat and INEI to ensure suitable coordination, direction and execution of the e-government component. Although the design and coordination of this component is within the brief of the Public Administration Secretariat, as the agency responsible for the national electronic government strategy, a Council for Electronic Government will also be set up. This will consist at least of representatives from the PCM, from MEF (SIAF), and from INEI. The Council will be responsible for approving the informatics procedures to be used in public administration, together with maintenance of the electronic government project and its extension to other public bodies (regional and local governments), implementation of the digital signature system in public administration, development of the legal framework underlying the project, and approval of bidding documents and contracts with firms made in this component. **The agreement with INEI or the transfer of INEI information technology functions to the executing agency and creation of the Electronic Government Council will be conditions precedent to initial disbursement of this component.**
- 3.7 For execution of the component on government procurement management, the co-executor unit will direct, coordinate and supervise the activities of CONSUCODE.

In addition, an interagency commission will be formally established consisting of a representative from CONSUCODE, one from MEF (SIAF), another from PCM (Electronic Government), one from INEI and one from PromPyme, to support final definition of the functional and information requirements of SEACE, and to approve bidding documents and contracts with firms under this component.

- 3.8 In the pilot MTC modernization component, this Ministry will appoint two bodies to take charge of execution. The MTC general secretariat will be in charge of the subcomponent to support general administration, and the Vice-Minister of Transport will be responsible for the transport subcomponent. To improve monitoring and coordination of this component, **the MTC will appoint staff to take charge of each of the mechanisms with terms of reference and a staff profile agreed with the Bank; this appointment will be a condition precedent to the first disbursement. The signing of a management agreement between MTC, the PCM and MEF setting out the MTC modernization and decentralization program for 2003 will be a condition precedent to the first disbursement of this component.** It will need to be consistent with the overall project objectives for that year. Management agreements for successive years during program execution should also be consistent with program objectives and form part of the corresponding annual operating plan.
- 3.9 The co-executor will have the following main functions: (a) to prepare an annual operating plan for the subprogram; (b) to execute action plans defined in the operating plan; (c) to technically evaluate terms of reference for consulting services to carry out the respective selections and hirings; (d) to prepare and present progress and execution reports on subprogram activities; (e) to participate from the technical point of view in matters relating to the selection of consulting services; and (f) to prepare documentation to be presented to the Bank through the UCP relating to fulfillment of the subprogram's targets.

b. Decentralization subprogram

- 3.10 The co-executor of this subprogram will be located in the CND and also have a director, with direct technical responsibility for its execution, and for direct supervision of the unit's staff. The unit will consist of qualified professional staff working exclusively on the program, on legal aspects, institutional strengthening of lead agencies and in support for regional and local governments. The professional staff in this unit will be hired using program funds in accordance with Bank requirements and subject to its no-objection. The unit will have functions equivalent to those described in the previous section. A consultancy unit was established during the program preparation phase, which actively supported the design process and proved highly effective in developing the legislation approved. As in the previous case, the program's operating annex specifies the number, duration of hiring, cost and terms of reference of the staff attached to the unit. A group of staff and consultants is already supporting the PCM in the design of the

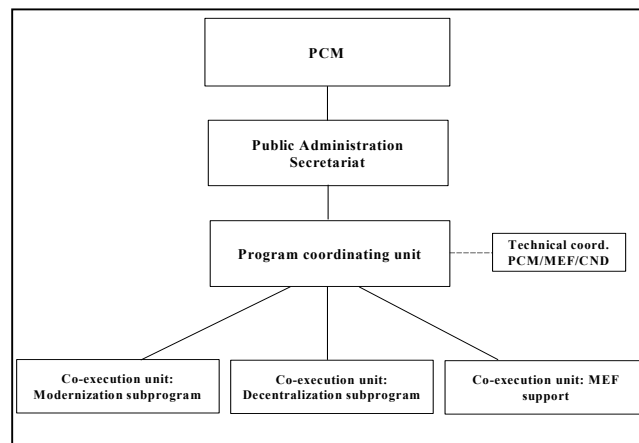
program, and this will represent the basic nucleus from which the decentralization co-executor unit will be formed in the CND. **Formal establishment of this co-executor unit will be a condition precedent to the first disbursement.**

- 3.11 To conduct studies of intergovernmental fiscal relations and the respective legal proposals envisaged in the legal framework component of this subprogram, a technical committee will be established with representatives from CND, MEF and the PCM. This will review, monitor and evaluate the terms of reference, as required. The results of the studies and legal proposals will be submitted to the three organizations. The CND will coordinate the technical committee.

c. Support for MEF

- 3.12 The strengthening of SIAF and SNIP systems, together with actions to strengthen inter-governmental fiscal monitoring systems, will be executed by the MEF in the framework of general coordination with the PCM and CND. For these purposes, the MEF Sectoral Projects Coordination unit will act as co-executor of this component without additional cost to the project. This co-execution unit will have the same responsibilities as those appointed for modernization and decentralization.
- 3.13 The basic organization chart for administrative execution is shown below:

Figure III-1



B. Program execution scheme

- 3.14 The execution of program activities will follow a timetable consisting of: (a) action plans for each component; (b) annual operating plans; (c) operating manual; and (d) guidelines for using resources to support the transfer of competencies to regional governments, as envisaged in the decentralization subprogram.

1. Action plans by component

- 3.15 Preliminary action plans were drawn up during the program preparation phase. These identified the specific objectives of each component and contained execution guidelines, activities to be carried out, summary terms of reference, activities timetable, and budgets – distinguishing between the local counterpart and Bank financing.

2. Annual operating plans

- 3.16 The annual operating plans are defined in accordance with the timetable established by the component action plans, adjusted in line with the actual pace of execution. Each annual operating plan will include the activities contained in the operating plans for each component; and its approval will require terms of reference to be drafted for hiring consulting services in the respective year. Terms of reference for activities envisaged in the first year of execution have been completed and can be found in the project's technical files. These form part of the 2003 annual operating plan. The first annual operating plan (2003) will review the extent to which the legal framework approved to date (the Executive Power Law, the Public Employment and Civil Service Career Law, the Regions Law; the Municipalities Law, the Fiscal Decentralization Law and the 2002 Budget Law) is consistent with program objectives. **Approval of the first annual operating plan will be a condition precedent to the first disbursement.**
- 3.17 Each year, through the UCP, the borrower will report to the Bank on progress made in implementing the annual operating plan and in satisfying the general conditions established in the loan contract. The Bank will review the monitoring reports, assess the technical quality of the program's achievements and progress made towards the established targets (see logical framework in Annex III-1). This review will be carried out with support from the project team.

3. Operating manual

- 3.18 In addition, an operating manual for the program as a whole will be presented by the Public Administration Secretariat for the Bank's no-objection, as a condition precedent to the first disbursement. This manual will set out the administrative guidelines established by the program concerning the execution responsibilities of the coordination unit and co-executor units, including their relationship with the government institutions to which they are attached. It will also cover accounting procedures for procurement, contracting and disbursements; together with execution processes in the case of activities involving two or more units, and relations between units in the execution process. The program's technical files contain a first draft of this manual.

4. Guide for using resources in support of the transfer of competencies to regional governments

- 3.19 Funds to support the transfer of competencies to regional governments will be used to strengthen their management capacities to enable them to take on the services transferred to them during project execution. Projects will be supported to develop management systems and training related to the services to be transferred. The CND will identify eligible services each year in a decentralization plan. Regional governments will need to satisfy the following requirements to access resources from this fund:
- a. Presentation to the CND of an institutional strengthening project for taking over the service in question; this will be based on the diagnostic study of institutional capacities to be conducted in each government, supported by the CND through the Bank program. The regional government may request additional technical assistance from the CND to prepare the project.
 - b. Acquisition of minimal institutional capacity, certified by the CND, in: (i) financial management; (ii) programming and management of public investment projects; and (iii) procurement management, in accordance with targets agreed in the Basic Management Strengthening Plans, financed during the first stage of support for the establishment of regional governments.
 - c. The regional government will contribute at least 20% of the cost of the project from internally generated resources (current or investment), funds transferred by national government or from other sources not related to the Bank loan.
 - d. The project will include a baseline for ex-post evaluation by the CND of the systems implemented.
 - e. The CND will approve the respective projects, which will be implemented through consulting services to be contracted in accordance with Bank rules on bidding procedures.
 - f. The CND will specify criteria and a formula for allocating these resources, to ensure that all regional governments have access to them. The allocation criteria and formulas will be submitted to the Bank for its no-objection and will be included in the first annual operating plan.
 - g. In the event that a regional government decides not to avail itself of this source of funding, the corresponding resources will be reprogrammed in the annual operating plan for use by other regional governments.

C. Program start-up workshop

- 3.20 Once the operation has been approved, a seminar will be held in Lima to launch the program. This will be attended by the program authorities, including the UCP, co-executors, and Bank staff. The seminar will review the operating plan for the first year, coordinate activities envisaged therein, and ensure synergy between the two subprograms.

D. Evaluations and monitoring

- 3.21 The executors will present six-monthly reports to the Bank starting from the date on which the project is declared eligible. These will describe the state of progress of the annual operating plan and propose any actions needed to ensure satisfactory execution. The second semester report in each year will be presented to the Bank along with the annual operating plan for the following year. The Bank will agree with executors the format to be used for these reports, for which a proposal already exists in the project's technical files.
- 3.22 A monitoring meeting will be held six months after the project has been declared eligible. This will review and update the targets of the action plans and the results indicators, to measure the development and impact of the program's activities. Starting at the end of the first year, annual meetings will be held to agree the operating plan for the following year and evaluate the results of the year concluding. In addition to reviewing the indicators developed in the program's general logical framework and the specific indicators for the two subprograms (see Annex III-1), these meetings will consider the following aspects: (a) progress in the legal framework and implementation of the State map; (b) definition and implementation of the new civil service career structure and improvement in human resource management; (c) implementation of the central government's comprehensive information technology policy, and the e-government program; (d) implementation of the automated procurement system; and (e) progress in implementing the MTC pilot and PCM strengthening plans.
- 3.23 For the decentralization subprogram, annual monitoring meetings will review the following aspects: (a) legal development, placing special emphasis on upholding the principle of fiscal neutrality in the decentralization process, as expressed in current legislation through a clear separation of functions between the three government levels and regulation of transfer funds from national government; (b) progress made in the CND and in strengthening MEF capacity to monitor intergovernmental fiscal relations; (c) progress in developing the regional government start-up plan; and (d) progress in the municipal government technical assistance plan.
- 3.24 The Bank may convene meetings to review the first semester report each year, if it considers this necessary.

- 3.25 A mid-term evaluation meeting will be held to coincide with the annual meeting closest to the time when 50% of Bank financing has been disbursed, in order to analyze the progress of the operation and consider any correction measures that may be required. The logical framework indicates the activities that will form part of this evaluation.
- 3.26 In addition, a final meeting will be held to make a general evaluation of the program. This will: (a) verify the degree of compliance with the program's overall purpose indicators, and with the purpose and component indicators for the two subprograms; (b) assess the successes and shortcomings of the program's design, its execution and effectiveness in furthering the country's development objectives in terms of State reform and decentralization; and (c) recommend corrective or monitoring measures for future programs of this type.
- 3.27 In order to evaluate the program's progress and results, an evaluation and monitoring system will be designed at the start of execution. This will be based on the indicators set out in the logical framework. Baselines have been identified for these indicators, and one group has already been quantified. Consultants will be hired to quantify baselines for the other indicators, to ensure they are available when program execution begins, except for those which by nature can only be quantified during the course of the project.
- 3.28 **The design of the evaluation and monitoring system, together with existing baselines and those currently being quantified, will be presented to the Bank as a condition precedent to the first disbursement.** These baselines account for most of the project requirements. An international bidding process will be held to appoint a consulting firm to define the supplementary baselines to be drawn up during project execution, validate existing baselines and conduct the mid-term and final program evaluations. The consulting firm that is awarded the contract will be ineligible to participate in any other operation related to the program. The Bank will be responsible for selecting this firm.

E. Procurement of goods and services

- 3.29 The procurement of goods and services will be conducted in accordance with standard Bank procedures. International competitive bidding will be used for procurements worth US\$250,000 or more, while national contracting procedures are recommended for smaller amounts provided these do not conflict with Bank policies. International competitive bidding procedures will be used to hire consulting services when the estimated contract amount is US\$200,000 or above; Bank procedures (included in Annex C of the loan contract) will be used in all other cases. The procurement plan is contained in Annex III-2.
- 3.30 Contracting for smaller amounts will be carried out by the UCP without having to obtain the Bank's no-objection, although ex-post reviews may be carried out. For

these purposes, a maximum contract value of US\$25,000 will be set for individual consultants, US\$10,000 for training and US\$20,000 for goods and equipment procurement. In order to finance these contracts using Bank funds, the UCP will follow the country's administrative procedures, provided these are compatible with those of the Bank. An exception to this procedure will apply to contracts with international consultants and professional staff attached to the UCP and the program's co-executors.

F. Disbursements and revolving fund

- 3.31 To facilitate program disbursements, a revolving fund will be established for up to 5% of the Bank loan. The UCP will file six-monthly reports with the Bank on the situation of the revolving fund, no later than 60 days following the end of each semester.

G. Execution period and investment timetable

- 3.32 The loan is expected to be disbursed over a four-year period, running from the date on which the loan contract takes effect. This period is considered long enough to carry out the technical assistance activities envisaged, and for tendering and contracting activities and their execution.
- 3.33 The table below summarizes the program's investment timetable.

Table III-1 PROGRAM INVESTMENT TIMETABLE (Millions of US dollars)					
Categories	Year 1	Year 2	Year 3	Year 4	Year 5
Management	0.90	0.70	0.70	0.50	0.20
State modernization	2.90	5.70	4.60	0.50	0.20
Decentralization	4.20	7.10	5.40	2.30	1.00
Audit	0.02	0.02	0.02	0.01	0.01
Monitoring and evaluation	0.06	0.06	0.06	0.03	0.01
SUBTOTAL	8.10	13.60	10.80	3.40	1.50
Contingencies	0.40	0.40	0.40	0.10	0.00
Financial costs	0.20	0.50	0.40	0.20	0.00
TOTAL US\$	8.60	14.60	11.50	3.70	1.50
%	21.6	36.5	28.7	9.2	4.7

H. Recognition of expenses and retroactive financing

- 3.34 Expenses up to US\$1 million incurred during the 18 months prior to loan approval, in preparing studies and strategies for the two subprograms, will be recognized as a

charge against local counterpart funding. Expenses will be recognized only if the procedures followed are similar to those to be used during program execution.

- 3.35 In addition, up to US\$500,000 will be recognized as retroactive financing charged against the loan for activities concerned with consulting services, equipment procurement, fitting-out of offices and furniture carried out during the 12 months prior to approval of the loan.

I. External audit

- 3.36 The program's external audit will be carried out by an independent firm of auditors acceptable to the Bank, and will be conducted in accordance with terms of reference previously approved (IDB Document AF-400). The firm will be selected and contracted following the standard bidding process for audit firms established by the Bank (Document AF-200). The costs of the audit are included in program costs, and will be financed out of the loan proceeds. The firm will be contracted by the executing agency for a minimum period of four years, subject to a severance clause in the event of performance deemed unsatisfactory by the Bank. Financial statements for the program will be filed no later than 120 days following the end of the respective fiscal year.

J. Ex post evaluation

- 3.37 The project does not envisage an ex-post evaluation, because the final evaluation will analyze the project's results, and make it possible to review fulfillment of development indicators. Nonetheless, the information gathered during annual monitoring meetings, as well as in the mid-term and final evaluations, will make it feasible to undertake a complementary ex-post evaluation in the future, should the country or the Bank decide to do so.

IV. VIABILITY AND RISKS

A. Viability

- 4.1 **Legal viability.** The program is designed to support the country in the development and initial implementation of a constitutional reform paving the way for the election of regional governments, together with framework laws on State modernization and decentralization, all approved during the current year. The legislative development required to complement these legal instruments, which form part of the project's objectives, are being defined with Bank support in a climate of intensive cooperation between the executive and legislative branches of the State.
- 4.2 **Institutional viability.** The PCM is the project's main counterpart. This body has sufficient authority to coordinate the operation as a whole, given its role as conciliator of national public policies, and particularly since it has been charged with overseeing the modernization process. During the year it has expanded its staff, using its own resources, and has shown clear leadership in the project design phase. Nonetheless, it requires support to strengthen its management systems in order to fulfill its multiple responsibilities in an efficient manner. The MEF, another direct beneficiary of the project, is widely known for its technical capacity. The third institution involved, the CND, is of very recent creation, however. The Government has responded rapidly in appointing its Board of Directors and allocating resources amounting to about US\$100 million to the FIDE, with investment targets for regional and municipal governments. The project will be managed by the three institutions collaborating closely with one another, coordinated by the PCM. The program involves a lot of contracting. The project team has noted both the commitment of the PCM and its capacity for hiring staff during the project design, and this will be strengthened with the coordination unit responsible for program management.
- 4.3 **Financial viability.** Counterpart funding will come from the national budget through resources allocated to the PCM, CND and MEF. In addition, FIDE funds will be the main counterpart of the components to support regional and municipal governments, in the decentralization subprogram. In conversations between the project team, the PCM and the MEF budget office, it has been agreed to include local counterpart resources in the 2003 Budget Law.
- 4.4 **Environmental and social viability.** Given the nature of the activities to be financed through the program, no direct environmental social impacts are envisaged. Nonetheless, the project gives special attention to the following issues:
- a. **Gender or ethnic discrimination in public administration.** The project will finance a study on gender-based wage discrimination in public institutions, to include policy recommendations and possible legal instruments to correct any

discriminatory practices identified. It will also promote a study to help identify possible discriminatory practices based on ethnic-linguistic criteria. This will include an analysis of how to improve participation by indigenous communities in local development, in a framework of decentralization and respect for their forms of organization, making policy recommendations where appropriate. In addition, it has been agreed with the Government that the Public Employment and Civil Service Career bill, currently being drafted, will guarantee equal opportunities for access to public-sector employment without discrimination by gender, ethnicity or any other type of distinction, although upholding the technical qualifications required in each case.

- b. **Guarantees of political participation by gender and for ethnic minorities.** As the decentralization process unfolds, there is of risk of perpetuating practices that discriminate against women and indigenous ethnic groups. Foreseeing this situation, the Congress of Peru included in the recently passed Regional Elections Law (14 March 2002) an obligation to ensure minimum 30% quotas for men and women alike, and a minimum 15% quota for representatives from native communities in candidate lists for regional councils (Article 12).
- c. **MTC modernization and decentralization: environmental standards and procedures.** In the sphere of the current State modernization process supported by the project,¹⁰ a General Office for Socio-Environmental Issues has been created in the MTC. The proceeds of IDB loan 1150/OC-PE are being used to start implementing components involving institutional strengthening on environmental issues in this newly established department. This will prioritize development of environmental policy in the transport sector and the regulatory and normative framework for highway management, at each of its three levels – national, departmental and rural. The technical and environmental standards and procedures to be developed in that component for the planning, construction, maintenance and operation of the departmental highways to be decentralized, will form the basis for creating and developing the regional highway agencies to be supported by this project. The same loan will also finance the production of environmental handbooks, and documents relating to works bidding and supervision and the corresponding contracts. The latter will include environmental clauses. Training and skill development will be provided for the MTC technical team. These activities will be complemented by others contained in the Departmental Highways Decentralization Program, currently being prepared by the Bank, which includes general and specific training on environmental issues for each of the regional highway agencies to be created in the future.
- d. **Environmental aspects of annual decentralization plans.** The project will help the CND contract an environmental specialist, who, in conjunction with the

¹⁰ Supreme Decree 041/2002 of 22 August 2002.

National Environment Council (CONAM), will establish guidelines for appropriate treatment of this issue and build them into the annual decentralization plans.

- e. **Civil-society participation:** The main elements of this project were included in the wide-ranging discussion with civil society through the forums held to achieve a National Governance Accord. In addition, they were and will continue to be discussed in forums to achieve consensus on the fight against poverty, in which representatives from all civil society participate.

B. Benefits

- 4.5 The main benefit of this operation is that it makes a major contribution to defining institutional rules that will guide the State modernization and decentralization process; it also supports their initial implementation in a fiscally responsible manner. Given the circumstances that have occurred in Peru, where the impetus of State reform has grown as program design has proceeded, the Bank has been able to support the country in developing standards and policies that are laying the foundations of this process.
- 4.6 The inefficient concentration of numerous functions and investment capacity in the now defunct MIPRE seriously weakened the State. The program will improve the organizational structure of national government, by supporting the development of its regulatory and policy-producing capacities; improving staff management; simplifying administrative and procurement procedures and making them more transparent; strengthening sectoral agencies and eliminating redundant functions. The PCM, MEF and MTC will be the direct beneficiaries. The first of these will increase its capacity for general government coordination; the second will strengthen its capacity to fiscally monitor the decentralization process; and the third will receive institutional strengthening to improve its capacity for sectoral action, in addition to support for the transfer of operational functions to subnational governments.
- 4.7 The program will also strengthen the legal framework to permit a sustainable and orderly decentralization process, from both the fiscal and administrative standpoints. It will also support the CND, regional governments and a select group of municipios in further strengthening their management capacity.

C. Risks

- 4.8 The main risk of the operation relates, paradoxically, to one of its main strengths: the level of support the reform has attracted has led to a rapid legislative and political pace that could undermine the technical foundations of State modernization and decentralization, and replace them with inconsistent and even cosmetic measures. The consensus observed among all relevant stakeholders in the

country is that there is a need to adopt prudent measures, in both legal design and implementation, and draw on successful international experience without neglecting country-specific features. The Bank is seen by the Government and by the various political, economic and social sectors as a highly reliable technical partner to accompany the country in this general public-sector reform.

- 4.9 The scope of the issues covered by the operation could generate two types of additional risk. Firstly, the government could have a problem coordinating the various components. Secondly, the Bank could perceive the value added by its intervention as diffuse. An attempt has been made in program design to minimize implementation problems by forging strong synergy among its various components, together with an execution structure that coordinates participating institutions. On the question of the Bank's intervention, the project establishes a series of indicators to measure this over time. In addition, one can begin to appreciate the value added by the Bank by the contribution it has already made in preparing legal instruments and policies that have helped give direction to the dynamic State reform process in Peru, laying sound foundations for executing the program.
- 4.10 Given the political nature of the legislative process, there is a risk that the version adopted by Congress of some of these legal instruments may not agree with principles set out in this document. The final text or texts could obstruct the execution of certain components by introducing inappropriate legal elements or incorrect institutional incentives for implementing aspects of State reform or decentralization. To minimize this risk, the project defines a group of criteria and envisages periodic meetings to support legislative work and evaluate its consistency with the program's objectives.

STATE MODERNIZATION AND DECENTRALIZATION PROGRAM (PE-0217)
LOGICAL FRAMEWORK

GOAL OF THE PROGRAM: To enhance efficiency, efficacy and transparency in the Peruvian State, increase civic participation in public affairs and improve the quality of public services.	
PURPOSE OF THE PROGRAM: To contribute to an effective public administration modernization and decentralization process in Peru.	
SUBPROGRAM A: State modernization	SUBPROGRAM B: State decentralization
Purpose: To improve the institutional structure of central government and its basic management systems; and to increase the efficiency and transparency of public administration.	Purpose: To construct an inter-governmental system of State institutions that will improve the public accountability of civil servants; increase transparency and participation in public decisions at the subnational level and ensure discipline and accountability in intergovernmental fiscal management; and guarantee a decentralization process of neutral fiscal impact.
Components: <ol style="list-style-type: none"> 1. Administrative reorganization of government designed and applied. 2. Basic human resource management rules, institutions and systems established and functioning. 3. Electronic government operating efficiently and effectively. 4. Automated management of government purchases and contracting implemented. 5. Pilot MTC modernization and decentralization program implemented successfully. 6. PCM modernization program implemented successfully. 	Components: <ol style="list-style-type: none"> 1. Legal framework of decentralization process approved. 2. Central lead agencies – institutional: (MEF) and inter-governmental: (CND) – strengthened and operating regularly. 3. Regional governments properly installed and administratively strengthened, and their staff trained. 4. National System for Local Institution Strengthening operating, and institutional support plans implemented in 18 municipios.
Activities: <ol style="list-style-type: none"> 1.1 Contracting for consulting services and procurement of informatics equipment and systems. 2.1 Contracting for consulting services and procurement of equipment, software and furniture. 3.1 Contracting for consulting services and procurement of computers and peripheral devices. 4.1 Contracting for consulting services and procurement of computers, peripheral devices and software. 5.1 Contracting for consulting services and procurement of equipment and software. 6.1 Contracting for consulting services and procurement of computers, peripheral devices and furniture. 	Activities: <ol style="list-style-type: none"> 1.1 Contracting for consulting services. 2.1 Contracting for consulting services and procurement of computers, software and furniture. 3.1 Contracting for consulting services and procurement of equipment and software. 4.1 Contracting for consulting services and procurement of equipment and software.

STATE MODERNIZATION AND DECENTRALIZATION PROGRAM (PE-0217) SUBPROGRAM A: STATE MODERNIZATION LOGICAL FRAMEWORK			
NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
GOAL			Sustainability
To contribute towards more efficient, effective and transparent management of public services provided by national government.	1.1 The operation of institutions supported by the project, and the services they provide, improve by the end of the project according to staff.	<ul style="list-style-type: none"> Opinion survey of national authorities and staff no later than 12 months after the first disbursement, and again 48 months later. 	<ol style="list-style-type: none"> Constitutional system, together with its legal, regulatory and operating instruments remain in place and continue to be applied after the program ends. National authorities continue to prioritize the modernization of public administration after the end of the program. National authorities continue to prioritize a sustained increase in the efficiency and transparency of the State once the operation has concluded.
	2.1 Public perception of the functioning and transparency of institutions supported by the project, and the services they provide, improve by the end of the project.	<ul style="list-style-type: none"> Public opinion surveys no later than 12 months following the first disbursement, and again 48 months later. 	
PURPOSE			FROM PURPOSE TO GOAL
To improve the institutional structure of central government and its basic management systems, and increase the transparency and accountability of decision making.	1.1 At least 50% of overlapping competencies identified in organizations and public programs, by the government rationalization program, eliminated within 48 months following the first disbursement.	<ul style="list-style-type: none"> Annual program report. Mid-term program report. 	<ol style="list-style-type: none"> National authorities actively participate in the process of modernizing central government management.
	2.1 Reduction of pay differential between civil servants and private-sector workers 48 months after the first disbursement.	<ul style="list-style-type: none"> Reports of the human resource information system and the private sector. Annual program report. 	
	3.1 Users of human resource system indicate an approval rating of over 80%, 48 months after the first disbursement.	<ul style="list-style-type: none"> Opinion survey among public-sector workers on the operation of the program. 	
	4.1 Institutional coordination of the e-government program established, and overlapping competencies eliminated, within 12 months following the first disbursement.	<ul style="list-style-type: none"> Institutional structure approved and implemented. Program monitoring report. 	
	5.1 The Peruvian State portal provides on-line procedures for 20 public services within 24 months following the first disbursement, rising to 30 public services 48 months after the first disbursement.	<ul style="list-style-type: none"> Program monitoring reports. Mid-term and final program evaluations. 	
	6.1 Response time of administration, and time spent by users of on-line services, cut by at least 70%, 48 months after the first disbursement, compared to the same services at the start of the program.	<ul style="list-style-type: none"> Baselines and final results to be established in the program. Final program evaluation. Program monitoring reports. 	
	7.1 At least 50% of population with Internet access make use of on-line public services, and 80% of them do so satisfactorily 48 months after the first disbursement.	<ul style="list-style-type: none"> User survey. 	
	8.1 Implementation of at least 10 services offered through intranet 24 months after the first disbursement, rising to 20 services 48 months after the first disbursement.	<ul style="list-style-type: none"> Program monitoring reports. Mid-term and final program evaluations. 	

STATE MODERNIZATION AND DECENTRALIZATION PROGRAM (PE-0217) SUBPROGRAM A: STATE MODERNIZATION LOGICAL FRAMEWORK			
NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	9.1 80% of civil servants with potential access to the intranet using its services satisfactorily 48 months after the first disbursement.	<ul style="list-style-type: none"> Surveys of satisfaction among authorities and civil servants. 	
	10.1 At least 90% of central government procurement and contracting registered in the system, 48 months after the first disbursement.	<ul style="list-style-type: none"> Annual report of purchase and procurement system. 	
	11.1 Response times by the administration and processing by suppliers reduced by at least 50%, 48 months after the first disbursement, compared to the situation at the start of the program.	<ul style="list-style-type: none"> Program monitoring reports. Final evaluation. 	
	12.1 60% of civil servants express satisfaction with the operation of the computerized purchase and procurement system 48 months after the first disbursement.	<ul style="list-style-type: none"> Staff satisfaction survey. 	
	13.1 60% of State registered suppliers express satisfaction with the operation of the computerized purchase and procurement system 48 months after the first disbursement.	<ul style="list-style-type: none"> State supplier satisfaction survey 	
COMPONENTS			FROM COMPONENTS TO PURPOSE
1. Administrative reorganization of government designed and applied successfully.	1.1 State map prepared and approved by executive branch no later than 24 months following the first disbursement.	<ul style="list-style-type: none"> State map document approved. Proposals approved for rationalization of public bodies and programs. Annual program report Mid-term program evaluation. 	<ul style="list-style-type: none"> Regulations for State reorganization approved in timely fashion. National authorities and civil servants actively participate in implementing the new structure and tools provided by the modernization process.
	1.2 Organic Executive Power Bill and associated regulations passed no later than 24 months after the first disbursement. The law and its associated regulations envisage: (a) strengthening of competencies in sectoral ministries to formulate and develop public policies; (b) elimination of redundant functions; and (c) guarantee of the necessary autonomy for regulatory agencies and bodies.	<ul style="list-style-type: none"> Law and associated regulations approved by Congress and/or the Government (as appropriate) and published in the Official Gazette. Annual program report. Mid-term program evaluation. 	
	1.3 Regulations to the Framework Law on State Management Modernization approved no later than 24 months following the first disbursement.	<ul style="list-style-type: none"> Regulatory document approved by the Government and/or Congress, as appropriate. 	
	1.4 Sector regulations in place 48 months after the first disbursement.	<ul style="list-style-type: none"> Sector regulations approved by Congress or the competent body and published in the Official Gazette. 	

STATE MODERNIZATION AND DECENTRALIZATION PROGRAM (PE-0217) SUBPROGRAM A: STATE MODERNIZATION LOGICAL FRAMEWORK			
NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
2. Basic human resource management rules, institutions and systems established and functioning regularly.	2.1 Civil service career law passed within 24 months following the first disbursement. The law will include (a) unification of the basic legal regime governing civil servants, providing legal security and job stability, current service contracts regularized in an employment regime; (b) a strategy to reduce the wage gap between the public and private sectors; (c) a system for organizing public-sector employment coordinated around a central lead agency; (d) principles of labor flexibility, career entry and promotion on merit, public accountability, and equal opportunities for access to public-sector employment; (e) the level of management flexibility available to each level of government to hire, pay, promote and dismiss employees in its service, in the framework of the respective laws and applicable budgetary constraints; and (f) general principles for establishing a central human resource database and implementation of a staff management system.	<ul style="list-style-type: none"> Civil service career law approved by Congress and published in the Official Gazette. 	<ul style="list-style-type: none"> Regulations for State reorganization approved in timely fashion. National authorities and civil servants actively participate in implementing the new civil service structure.
	2.2 Regulatory development of the Civil Service Career Law approved within 36 months following the first disbursement.	<ul style="list-style-type: none"> Regulations approved by Congress and published in the Official Gazette 	
	2.3 Unified registry of public-sector employees, integrated into the SIAF, installed and operating, incorporating human resource information from 100% of central government bodies within 24 months following the first disbursement.	<ul style="list-style-type: none"> Reports of human resource information system. Program monitoring reports. Mid-term program evaluation. 	
	2.4 50% of staff operating the human resource system trained to use the system within 36 months following the first disbursement.	<ul style="list-style-type: none"> Annual reports of training institutions. 	
	2.5 Design and implementation of a program to train State administration teams within 36 months following the first disbursement.	<ul style="list-style-type: none"> Training program approved and published. Human resource information system reports. Program monitoring reports. 	
3. Electronic government operating efficiently and effectively.	3.1 Comprehensive central government information technology and e-government policy designed within 12 months following the first disbursement.	<ul style="list-style-type: none"> Policy document approved. 	National authorities and civil servants actively participate in the institutionalization of e-government.
	3.2 Intra-governmental coordination mechanism established within 12 months following the first disbursement.	<ul style="list-style-type: none"> Mechanism document approved. Program monitoring report. 	
	3.3 Regulatory framework for implementation of e-government reviewed and published within 12 months following the first disbursement.	<ul style="list-style-type: none"> Rules approved and published. Program monitoring report. 	
	3.4 State intranet implemented within 36 months following the first disbursement.	<ul style="list-style-type: none"> Program monitoring reports. Mid-term program evaluation. 	

STATE MODERNIZATION AND DECENTRALIZATION PROGRAM (PE-0217) SUBPROGRAM A: STATE MODERNIZATION LOGICAL FRAMEWORK			
NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	3.5 Plan for on-line self-access training for civil servants responsible for publishing and updating information on the State portal and intranet, designed, approved and implemented within 24 months following the first disbursement.	<ul style="list-style-type: none"> On-line self-access training program approved. Reports on execution of self-access training plan and exams approved. 	
	3.6 Communications plan for dissemination to the public designed, approved and implemented within 24 months following the first disbursement.	<ul style="list-style-type: none"> Communications plan approved. Reports on execution of plan. Program monitoring reports. Mid-term program evaluation. 	
4 Automated management of government purchases and contracting implemented successfully.	4.1 Comprehensive computerized procurement and contracting system designed within 12 months following the first disbursement.	<ul style="list-style-type: none"> System design document approved. Annual system reports. 	National authorities and civil servants participate actively in the institutionalization of automated management of State procurement and contracting.
	4.2 48 months after the first disbursement, 100% of national government agencies that already have the SIAF operating are also users of the procurement system.	<ul style="list-style-type: none"> Annual operation monitoring report. 	
5 Pilot MTC modernization and decentralization program implemented successfully.	5.1 Design of the pilot program prepared and approved within six months following the first disbursement.	<ul style="list-style-type: none"> Program design document approved. Annual program monitoring report. 	Support by the Government and subnational authorities for MTC pilot program maintained throughout the project.
	5.2 Pilot program implemented and operating within 48 months following the first disbursement.	<ul style="list-style-type: none"> Program monitoring reports. Final program evaluation 	
	5.3 Pilot program monitoring and evaluation plan prepared and approved within 24 months following the first disbursement.	<ul style="list-style-type: none"> Monitoring and evaluation plan approved. Six-monthly reports. 	
6 PCM modernization program implemented successfully.	6.1 Modernization program designed and approved 12 months after first disbursement.	<ul style="list-style-type: none"> Modernization program design document approved. Six-monthly program reports. 	Government support for MTC modernization program maintained throughout the project.
	6.2 Program implemented and operating within 36 months following the first disbursement.	<ul style="list-style-type: none"> Six-monthly program reports. Final program evaluation. 	
	6.3 Program monitoring and evaluation plan prepared and approved within 36 months after the first disbursement	<ul style="list-style-type: none"> Monitoring and evaluation plan approved. Six-monthly monitoring and evaluation reports. 	

STATE MODERNIZATION AND DECENTRALIZATION PROGRAM (PE-0217) SUBPROGRAM A: STATE MODERNIZATION LOGICAL FRAMEWORK			
NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
ACTIVITIES	INPUTS/RESOURCES		
Activities: 1.1 Contracting for consulting services and procurement of informatics equipment and systems. 2.1 Contracting for consulting services and procurement of computers, software and furniture. 3.1 Contracting for consulting services and procurement of computers and peripheral devices. 4.1 Contracting for consulting services and procurement of computers, peripheral devices and software. 5.1 Contracting for consulting services and procurement of equipment and software. 6.1 Contracting for consulting services and procurement of computers, peripheral devices and furniture.	See program budget and costs table.	Program accounting records.	<ul style="list-style-type: none"> Timely disbursement of counterpart funds. Consulting firms presented in each of the selection and contracting processes required in the program.

STATE MODERNIZATION AND DECENTRALIZATION PROGRAM (PE-0217) SUBPROGRAM B: STATE DECENTRALIZATION LOGICAL FRAMEWORK			
NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
GOAL			Sustainability
To contribute towards more efficient, effective and transparent management of public services provided by regional and municipal governments.	1.1 Operational institutions supported by the project, and the services they provide, improve by the end of the project according to staff.	• Opinion survey among national authorities and staff no later than 12 months following the first disbursement and again four years later.	<ul style="list-style-type: none"> Constitutional system, together with its legal, regulatory and operating instruments remain in force after the program ends. National authorities maintain decentralization process as a priority after the end of the program. National authorities continue to prioritize a sustained increase in the efficiency and transparency of the State once the operation has concluded.
	1.2 Users' perception of the functioning and transparency of institutions supported by the project, and the services they provide, improves by the end of the project.	• User opinion surveys no later than 12 months following the first disbursement and again four years later.	
PURPOSE			FROM PURPOSE TO GOAL
To construct an inter-governmental system of State institutions that will improve the public accountability of civil servants; increase transparency and participation in public decisions at the subnational level and ensure discipline and accountability in intergovernmental fiscal management; and ensure a decentralization process of neutral fiscal impact.	1.1 New structure of intergovernmental relations in place 12 months after the first disbursement, guaranteeing clear and progressive distribution of competencies between the different territorial levels of government; participation by them in intergovernmental coordination structures, and public accountability of subnational authorities.	<ul style="list-style-type: none"> Decentralization Laws in place. Program monitoring reports. 	<ul style="list-style-type: none"> National and subnational authorities actively participate in the decentralization process.
	2.1 With fiscal imbalance factors induced by other national policies or by external shocks isolated, the decentralization process does not affect the national fiscal balance 48 months after the first program disbursement.	<ul style="list-style-type: none"> National fiscal accounts. Final project report. 	
	3.1 Integration of subnational government accounting into the operation of the system, successfully achieved by strengthening the National Comptroller General's Office and the Integrated Financial Management System, 24 months after the first disbursement.	<ul style="list-style-type: none"> Program monitoring reports. Mid-term program evaluation. 	
	4.1 Civil servants working in regional governments are satisfied with the operation of management systems installed 48 months after the first disbursement.	<ul style="list-style-type: none"> Report on sample opinion survey of civil servants on the functioning of management systems installed 	
COMPONENTS			FROM COMPONENTS TO PURPOSE
1. Legal framework of decentralization process approved and in place. 1.a. Legal framework approved and in place.	1.1 Organic Regions Law implemented no later than six months after the first disbursement.	<ul style="list-style-type: none"> Organic Regions Law approved by Congress and published in the Official Gazette. 	<ul style="list-style-type: none"> Legislative bills, regulations and associated rules approved in timely fashion. National and subnational authorities show willingness to resolve jurisdictional disputes. National and subnational authorities actively participate in implementing the new laws and systems created.
	1.2 Reform of the Organic Municipalities Law in place no later than 12 months following the first disbursement.	<ul style="list-style-type: none"> Reform of Municipalities Law approved by Congress and published in Official Gazette. 	
	1.3 Fiscal Decentralization Law implemented no later than 12 months following the first disbursement.	<ul style="list-style-type: none"> Fiscal Decentralization Law approved by Congress and published in the Official Gazette. 	
	1.4 Public Participation Act and the Regional Government Accreditation System Act in effect not later than 24 months following the first disbursement.	<ul style="list-style-type: none"> Public Participation Act and the Regional Government Accreditation System Act approved by Congress and published in the Official Gazette. 	

STATE MODERNIZATION AND DECENTRALIZATION PROGRAM (PE-0217) SUBPROGRAM B: STATE DECENTRALIZATION LOGICAL FRAMEWORK			
NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	1.5 Law on Incentives for Integration and Establishment of Regions implemented not later than eighteen months following the first disbursement.	• The Law on Incentives for Integration and the Establishment of Regions approved by Congress and published in the Official Gazette.	
1.b. Regulation of laws approved and in place.	1.6 Regulation of laws mentioned above, together with complementary administrative rules to make the process operational, in place no later than 24 months following the first disbursement.	• Regulations to the laws mentioned above, together with complementary administrative rules, approved by Congress or the Government, as appropriate, and published in the Official Gazette.	
1.c. Support studies completed on time.	1.7 Four studies to support drafting of the laws and regulations indicated above, completed in timely fashion	• Four studies prepared.	
	<p><i>Note:</i></p> <p>In conjunction with these legal instruments or their equivalents, the following elements should also be included: (i) clear distribution of functions between the various levels of government, in order to facilitate regional and local government accountability and avoid overlap of responsibilities; (ii) development of central government transfer system: FONCOR, FONCOMUN, FIDE (definition of stable and predictable funding sources, alternative formulas for transparent resource allocation); (iii) establishment of conditions on FIDE transfers (management capacities, revenue collection capacity); (iv) alternatives for regional and local taxes; (v) timetable and procedures for gradual transfer of services and competencies subject to the principle of transferring financial resources only when matched by expenditure responsibilities; and (vi) fiscal accountability rules for subnational governments emphasizing borrowing rules consistent with the principles of the Fiscal Prudence and Transparency Law, and mechanisms to guarantee their funding.</p>		
2 Lead agencies (MEF and CND) strengthened and operating regularly.	2.1 SIAF technology platform successfully changed, 36 months after the first disbursement.	• Program monitoring reports.	• National authorities, especially the MEF and CDE, and subnational governments actively participate in implementing the new laws and systems created.
2.a. MEF strengthened and successfully adapted to the decentralization process.	2.2 Governing agency for public investment strengthened, by improving functionality of its tools and adapting its rules to the decentralization process, 24 months after the first disbursement.	• Mid-term program evaluation.	
	2.3 Analysis and response capacity of the Public Revenue Policy Office on national and municipal taxation issues strengthened 24 months after the first disbursement.	• Program monitoring reports. • Mid-term program evaluation.	

STATE MODERNIZATION AND DECENTRALIZATION PROGRAM (PE-0217) SUBPROGRAM B: STATE DECENTRALIZATION LOGICAL FRAMEWORK			
NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
2.b. CND strengthened and functioning effectively. 2c. CND intergovernmental information system functioning properly.	2.4 Capacity of the National Economic and Social Affairs Office to formulate, analyze and monitor fiscal policy strengthened, particularly in subnational public finance; and its incorporation into the multi-year macroeconomic framework, 12 months after the first disbursement.	<ul style="list-style-type: none"> Program monitoring reports. 	
	2.5 Diagnostic study and organizational design of the CND completed 12 months after the first disbursement.	<ul style="list-style-type: none"> Organizational diagnosis and design documents. Program monitoring reports. 	
	2.6 Design and execution of a training plan for its staff completed 24 months after the first disbursement.	<ul style="list-style-type: none"> Training plan Program monitoring reports. Mid-term program evaluation. 	
	2.7 Informatics systems installed 12 months after the first disbursement.	<ul style="list-style-type: none"> Report on informatics system. Program monitoring report. 	
	2.8 Governance plan designed 12 months after the first disbursement.	<ul style="list-style-type: none"> Governance plan. Program monitoring report. 	
	2.9 Information system designed no later than 12 months after the first disbursement.	<ul style="list-style-type: none"> Information system design document approved by the CND and the Bank. 	
	2.10 Information system operating no later than 20 months following the first disbursement.	<ul style="list-style-type: none"> Six-monthly reports on intergovernmental information system. 	
	2.11 Development of a web portal (in conjunction with the PCM Electronic Government Office) for regional governments to provide selected services online, and for information and consultation purposes no later than 36 months following the first disbursement.	<ul style="list-style-type: none"> Six-monthly monitoring reports. User satisfaction survey. 	
	2.12 Technical Services and Contingency Center, for integrated financial management systems to be implemented in regional or local governments, functioning no later than 36 months after program approval; and all regional governments adequately served by the center no later than 48 months after the first disbursement.	<ul style="list-style-type: none"> Six-monthly monitoring reports. User satisfaction survey. 	

STATE MODERNIZATION AND DECENTRALIZATION PROGRAM (PE-0217) SUBPROGRAM B: STATE DECENTRALIZATION LOGICAL FRAMEWORK			
NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
3.a. Regional government administrative and management systems functioning effectively.	3.1 Institutional diagnosis and formulation of administrative strengthening plans in 25 regional governments completed no later than 12 months following program approval.	<ul style="list-style-type: none"> Strengthening plan document approved by the Government. Annual program report. 	<ul style="list-style-type: none"> Subnational authorities receptive to the proposal for supporting the installation of management systems.
	3.2 Implementation of administrative strengthening plans, including: review of administrative processes; adoption of management systems for administration, finance (based on the SIAF) and investments (based on the SNIP); and staff training, successfully carried out 48 months after the first disbursement.	<ul style="list-style-type: none"> Annual program report 	
	3.3 Evaluation of implementation of plans and institutional capacity, 48 months after the first disbursement.	<ul style="list-style-type: none"> Report on opinions of authorities and staff. 	
3.b. Subnational government management capacity strengthened to absorb sectoral competencies transferred from late 2004 onwards.	3.4 Review and implementation of administrative processes relating to new competencies in four sectors in the 25 regional governments, successfully completed no later than 48 months following the first disbursement.	<ul style="list-style-type: none"> Annual program reports. 	
	3.5 Program to train regional and local governments in the transferred sectors, designed and executed no later than 48 months following the first disbursement.	<ul style="list-style-type: none"> Training plan prepared. Annual program reports. 	
4. System of training and technical assistance for municipal governments operating.	4.1 National System for Local Institution Strengthening designed and operating no later than 24 months following first disbursement.	<ul style="list-style-type: none"> System design document prepared. Annual program reports. 	
	4.2 National policy document on municipal institution strengthening prepared, together with operating regulations, no later than 24 months following the first disbursement.	<ul style="list-style-type: none"> Document and regulations prepared. 	
	4.3 Training and technical assistance programs in 18 municipalities successfully executed no later than 48 months following the first disbursement.	<ul style="list-style-type: none"> Report of training firms. Survey of satisfaction among staff trained. Annual program report. 	

STATE MODERNIZATION AND DECENTRALIZATION PROGRAM (PE-0217) SUBPROGRAM B: STATE DECENTRALIZATION LOGICAL FRAMEWORK			
NARRATIVE SUMMARY	ACHIEVEMENT INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
ACTIVITIES	INPUTS / RESOURCES		
Hiring of consulting services	See program budget.	Program accounting records.	<ul style="list-style-type: none"> Timely disbursement of counterpart funds. Consulting services presented in each of the selection and contracting processes required in the program.
1.a Contracting for consulting services and procurement of equipment and software.			
1.b Contracting for consulting services and procurement of equipment, informatics systems and furniture.			
1.c Contracting for consulting services and procurement of equipment and furniture.			
2.a Contracting for consulting services and procurement of software and furniture.			
2.b Contracting for consulting services and procurement of equipment, software and furniture.			
2.c Contracting for consulting services and procurement of equipment, software and furniture.			
3. Contracting for consulting services and procurement of equipment and software.			
4. Contracting for consulting services and procurement of equipment and software.			

STATE MODERNIZATION AND DECENTRALIZATION PROGRAM (PE-0217)
SUBPROGRAM B: STATE DECENTRALIZATION
PROCUREMENT TABLE

COMPONENTS AND ACTIVITIES	Units	Amount US\$ x 1000	Type of bidding	Estimated date
1. Legal framework		1 000.0		
Legislative framework				
Local consultant (73 m/p)	9	265.0	SCI	1st Sem 03-2nd Sem 03
Regulation of laws				
Local consultant (144 m/p)	7	612.0	SCI	1st Sem 03-2nd Sem 03
International consultant (2 m/p)	1	20.0	SCI	1st Sem 03
Support studies				
Local consultant (12 m/p)	1	36.0	SCI	1st Sem 03
International consultant (2 m/p)	1	20.0	SCI	1st Sem 03
2. Strengthening of lead agencies		4 400.0		
National Decentralization Council				
Local consulting firm	1	67.0	LCB	1st Sem 03
Local consultant	3	151.0	SCI	1st Sem 03
International consultants	2	20.0	SCI	1st Sem 03
Informatics equipment and systems	81	500.0	ICB	1st Sem 03
Training	15	162.0	LCB	1st Sem 03
MEF strengthening				
Local consultants (336 m/p)	7	1 200.0	SCI	1st Sem 03-2nd Sem 05
International consultants (10 m/p)	2	200.0	SCI	1st Sem 03
Informatics equipment and systems	-	625.0	ICB	1st Sem 03-2nd Sem 05
Training	-	75.0	LCB	1st Sem 03-2nd Sem 05
Intergovernmental-CND information system				
Local consultants	2	40.0	SCI	1st Sem 03
Local consulting firm	2	360.0	LCB	1st Sem 03-2nd Sem 05
Informatics equipment and systems	-	950.0	ICB	1st Sem 03-2nd Sem 05
Training	-	50.0	LCB	1st Sem 03-2nd Sem 05
3. Support for regional governments		12 000.0		
Administrative and management systems				
Local consultants		87.4	SCI	1st Sem 03
International consultants		43.0	SCI	1st Sem 03
Local consulting firm	2	225	LCB	1st Sem 03
International consulting firm	2	3 011.3	ICB	1st Sem 03
Informatics equipment and systems		5 924.3	ICB	1st Sem 03-2nd Sem 05
Training		84	LCB	1st Sem 03-2nd Sem 05
Support for transfer of competencies				
International consulting firm	-	750	ICB	1st Sem 04-2nd Sem 05
Training and seminars	-	1 875.0	ICB	1st Sem 04-2nd Sem 05
4. Institutional strengthening of municipal governments		2 500.0		
Local consulting firm	3	418.0	LCB	1st Sem 03
Local consultants	-	40.5	SCI	1st Sem 03-1st Sem 04
International consultant	-	19.5	SCI	1st Sem 03
Informatics equipment and systems	-	1 080.0	ICB	1st Sem 03
Training	-	942.0	ICB	1st Sem 03-1st Sem 04
TOTAL - DECENTRALIZATION SUBPROGRAM		19 900.0		
Management				
Coordination				
Local consultants (288 m/p)	6	890.0	SCI	1st Sem 03
Modernization executing unit				
Local consultants (288 m/p)	4	834.0	SCI	1st Sem 03
Decentralization executing unit				
Local consultants (288 m/p)	7	1 370.0	SCI	1st Sem 03
Equipment		56.0	LCB	1st Sem 03
Monitoring and evaluation	1	220.0	ICB	1st Sem 03
TOTAL -Management		3 150		

SCI = Standard procedure for selecting individual consultants.

LCB = Local competitive bidding (under US\$200,000 for consulting services, and under US\$250,000 for goods).

ICB = International competitive bidding (above US\$200,000 for consulting services, and above US\$250,000 for goods).

STATE MODERNIZATION AND DECENTRALIZATION PROGRAM (PE-0217)
SUBPROGRAM A: STATE MODERNIZATION
PROCUREMENT TABLE

COMPONENTS AND ACTIVITIES	Units	Amount US\$ x 1000	Type of bidding	Estimated date
1. Organization of government		300.0		
Local consultant	11	205.0	SCI	1st Sem 03-2nd Sem 04
Consulting firm	3	85.0	LCB	2nd Sem 03
Hardware	5	10.0	LCB	1st Sem 03
2. Human resource management		3 500.0		
Lead agency				
Local consultant	2	152.0	LCB	1st Sem 03
Consulting firm	4	16.0	SCI	1st Sem 04
Hardware	81	142.0	LCB	1st Sem 04
Information system				
Local consultant	41	2 589.5	SCI	1st Sem 03
Training	54	44.3	SCI	1st Sem 03-2nd Sem 05
Hardware	-	66.2	LCB	1st Sem 03
Civil Service Career Law				
Local consultant	7	73.0	SCI	1st Sem 03
Hardware	3	6.0	LCB	1st Sem 03
Training of teams				
Consulting firm	4	325.0	ICB	1st Sem 04-2nd Sem 04
3. Electronic government		4 000.0		
International consulting firm	-	3 015.0	ICB	1st Sem 03
Informatics equipment and systems	-	985.0	ICB	1st Sem 03
4. Procurement system		4 200.0		
Local consultant (79 m/p)	16	160.0	SCI	1st Sem 03
International consultant (3 m/p)	3	54.0	SCI	1st Sem 03
Informatics equipment and systems	-	3 127.0	ICB	1st Sem 03
Training and dissemination	-	859.0	SCI	1st Sem 02-1st Sem 04
5. MTC pilot program		1 000.0		
Citizen advice system				
Local consultants	7	120.0	SCI	1st Sem 03-2nd Sem 05
Human resource development				
Local consultants	12	117.0	SCI	1st Sem 02-1st Sem 04
Restructuring of General Highways Board				
Local consultants	8	196.0	SCI	1st Sem 04-1st Sem 05
Staff redeployment				
Local consultants	4	28.0	SCI	1st Sem 03-2nd Sem 04
Support for creation of highway agencies				
Local consultants	27	320.0	SCI	
Strengthening of planning capacities				
Local consultants	6	96.0	SCI	1st Sem 03-2nd Sem 04
Hardware	-	120.0	LCB	1st Sem 03-2nd Sem 04
6. PCM modernization		1 000.0		
New organizational structure				
Local consultant	2	56	SCI	1st Sem 03
Local consulting firm-procedures	1	50	LCB	1st Sem 03
Local consulting firm-staff team	1	50	LCB	1st Sem 03
Hardware	4	3.2	LCB	1st Sem 03
Evaluation of government action				
Local consultant	2	79	SCI	1st Sem 03-2nd Sem 03
Executive-legislature relation				
Local consulting firm	1	40	LCB	1st Sem 03
Inter- and intrasectoral coordination				
Local consulting firm-coordination mechanisms	1	40	LCB	1st Sem 03
Local consultants	2	40	SCI	1st Sem 03
Hardware	4	3.2	LCB	1st Sem 03
Strengthening of information systems				
Local consultant	4	135	SCI	1st Sem 03
Local consulting firm	2	16	LCB	1st Sem 03
Training	9	54.5	LCB	2nd Sem 03
Hardware	136	425	ICB	1st Sem 03-2nd Sem 03
TOTAL - MODERNIZATION SUBPROGRAM		14 000.0		

SCI = Standard procedure for selecting individual consultants.

LCB = Local competitive bidding (under US\$200,000 for consulting services, and under US\$250,000 for goods).

ICB = International competitive bidding (above US\$200,000 for consulting services, and above US\$250,000 for goods).